

Indonesia-Australia Business Partnership Group



POSITION PAPER

on Considerations Towards the Indonesia-Australia Comprehensive Economic Partnership Agreement

Foreword by the IA-BPG

The Indonesia-Australia Business Partnership Group (IA-BPG) is pleased to present this **Position Paper on Considerations towards the Indonesia-Australia Comprehensive Economic Partnership Agreement** (IA-CEPA) to the Ministers for Trade of Indonesia and Australia. The paper represents the consensus views of members of the IA-BPG: The Australian Chamber of Commerce and Industry (ACCi), the Indonesian Chamber of Commerce and Industry (KADIN Indonesia), the Indonesia Australia Business Council (IABC) and the Australia Indonesia Business Council (AIBC).

The IA-BPG strongly supports the concept and vision of the IA-CEPA, which will underpin a new economic partnership between two nations, encompassing trade, investment, business cooperation and economic capacity building. We are confident that a bold and innovative IA-CEPA will tap the potential for much greater two-way business activity, resulting in an unprecedented change in the Indonesia-Australia economic relationship, to the benefit of the people of our two nations.

The IA-BPG met three times in Sydney and Jakarta during September and October 2012. Member organisations have consulted widely with business in Indonesia and Australia. The IA-BPG thanks the Governments of Indonesia and Australia for support that has enabled the IA-BPG to conduct its work. Kiroyan Partners have provided valuable services to the IA-BPG in preparation of this Position Paper.

This Position Paper represents an important milestone in business input to the IA-CEPA process. Business intends to remain closely engaged as the IA-CEPA is negotiated. There is a need for ongoing consultations with industry experts and stakeholders in the respective countries. To this end, the Business Partnership Group will continue to discuss IA-CEPA opportunities and detailed issues with the two governments, as well as engaging with a wide range of stakeholders to ensure that business input continues to be broadly-based.

The IA-BPG is keen to have the IA-CEPA start to deliver results and benefits as soon as possible. To this end, we advocate a rapid negotiation approach that enables outcomes to be implemented as they are agreed. We believe that the target date for finalisation of the full IA-CEPA should be 2014. Further, the IA-CEPA should be a dynamic agreement that continues to evolve as opportunities and challenges to the Indonesia-Australia economic relationship emerge and need to be addressed.



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Executive Summary

The idea of a bilateral comprehensive partnership agreement between Indonesia and Australia is one that has been discussed over recent years, and has received the highest levels of governmental approval and support. Australia and Indonesia are close neighbours with a highly productive relationship that encompasses political, security, commercial, environmental, cultural and people-to-people links. Australia and Indonesia have achieved considerable bilateral successes in areas such as counter-terrorism, people smuggling, climate change, interfaith dialogue and illegal fishing. However, given the size and proximity of the two largest economies in the region, one area that is underperforming is trade and investment. Indonesia is Australia's 12th largest trading partner overall and 11th largest export market. Conversely, Australia is Indonesia's ninth largest trading partner, and ninth largest export market. Likewise, two-way investments between the countries are small.

An Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) is therefore an opportunity to create a step-change in Indonesia-Australia relations as they enter a new unprecedented phase of cooperation and goodwill. Complementarities exist between the Australian and Indonesian economies offering great potential for increased mutual economic prosperity. The IA-CEPA should build on existing agreements such as the ASEAN-Australia New Zealand Free Trade Agreement (AANZFTA) and go beyond the concept of a traditional Free Trade Agreement. The relevance of other regional and global forums such as the WTO, APEC, G20 and ASEAN itself which all emphasise the economic benefits of greater transparency, integration and liberalisation of trade and commerce, also provide important references and benchmarks for IA-CEPA negotiations.

The Chambers of Commerce and Business Councils of both countries were tasked with seeking feedback from their members and the wider business sector in order to inform the discussions of a joint Business Partnership Group or IA-BPG. With support funding from the Australian Government, the IA-BPG represents a groundbreaking initiative aimed at formulating a joint business position paper which identifies not only the opportunities for greater trade, investment and business cooperation, but also the impediments, and recommendations for addressing those impediments. It is the aim of this paper to provide an overview of the deliberations, recommendations and conclusions of the IA-BPG.

While every effort was made to seek the views and input from business stakeholders in both countries in the preparation of this paper, members of the IA-BPG are conscious of the need for further consultations with industry experts and stakeholders in the respective countries. Therefore this document does not represent a definitive position, rather it represents the beginning of an ongoing process of input and involvement from the business community.

General Principles and Key Features

The IA-BPG supports and recommends an IA-CEPA that is founded on principles of further liberalisation of two-way trade in goods and services as well as facilitation of investment in all sectors. This should be achieved through the removal of tariffs and non-tariff barriers (except those that are consistent with WTO rules) and reducing market access restrictions to services, including liberalising the movement of natural persons. An emphasis should be put on facilitating the movement of skilled workers and offering capacity building for less skilled labour. The IA-CEPA should also aim for a harmonisation and simplification of rules and a

mutual recognition of standards, classifications and qualifications of goods and services to facilitate increased trade.

The IA-BPG highly recommends considering value chain integration by cross-border cooperation as a founding principle of the IA-CEPA. This will enable both countries to take advantage of internal markets and to participate in global supply chains. The IA-CEPA should comprise measures that can be implemented rapidly with positive effect as a way to build momentum to pave the way for stronger partnerships. Green economy and trade should also be promoted through identification of joint opportunities, lowering of barriers to trade and investment in green production and services. SMEs should also be a focus of attention, with the IA-CEPA promoting the development of SMEs and cooperation between SMEs from Indonesia and Australia. Mechanisms that facilitate *regional* business development in addition to business in the current economic centres of both countries should also be sought. Additionally, business development initiatives that provide net benefits to the disadvantaged and to women should be identified.

Capacity building should be a key principle that will help manage the transition period. In general, capacity building should cover the following:

- Improvement in Government procedures and policy development such as micro-economic reform and competition policy, government procurement liberalisation, etc.
- Development of special economic schemes to target sectors with unique requirements.
- Institutional development or innovation such as managing integrated natural resources.
- Training, education and research.
- Greater information exchange on bilateral business opportunities.
- Improved two-way cultural and language skills and understanding.

Furthermore, mechanisms aimed at assisting the implementation of the Masterplan for the Acceleration and Expansion of the Indonesian Economy (MP3EI) should be included in the IA-CEPA.

In consideration of the above principles, the IA-BPG has identified a number of key concepts as being integral to a successful IA-CEPA. **Economic cooperation** has been emphasised throughout the IA-BPG's deliberations as a key feature. The potential gains from strategic cooperation between the two complementary economies are enormous. The IA-CEPA is also expected to be **a dynamic, living and growing process** with a permanent joint committee overseeing, monitoring and implementing reform where necessary. Also, the aim of both governments should be to **foster inclusive growth in both countries**, contributing to sustained poverty reduction and allowing people across geographical, gender and ethnic divides to participate in and benefit from economic growth.

The organisations which formed the IA-BPG recognise and are committed to ensuring the process of ongoing consultations and **continuous engagement with stakeholders**, not only with business but more broadly with the media, academia, civil society and local government institutions. This is needed to ensure high awareness and buy-in. Measures are needed to **tackle the information shortage and market failure**. A lack of information regarding business and trade opportunities in both markets – and even misinformation – is a major impediment to increased trade and investment.

In this context, the IA-BPG recommends business involvement and stakeholder engagement through:

- a. the establishment of a permanent IA-BPG involving businesses and experts in the IA-CEPA process;
- b. a continuous and strong business-to-business engagement between both countries; and
- c. broader stakeholder engagement activities, including those targeting the media.

Key Opportunities from an Indonesia-Australia Economic Partnership

With complementary patterns of consumption and production between Indonesia and Australia, the IA-BPG has identified the following key areas for partnership opportunities:

- **Developing cross-border, integrated industries and value chains** to supply both domestic and third-country markets.
- **Enabling greater sharing of knowledge and technology** through harmonising standards and regulations; recognising qualifications; recognising intellectual property rights; establishing dispute resolution mechanisms; building education, training and professional development cooperation; facilitating joint ventures and business licensing; and encouraging movement of skilled people between the two countries.
- **Facilitating economic cooperation through an enhanced program of development assistance** that is focused on building economic capacity, developing skills, sharing market information, enabling market access, facilitating development of value chains, building local businesses and enhancing cooperation between government development assistance activities and the private sector.
- **Building two-way investment** by developing competitive markets, lowering barriers, reducing risks and promoting investment opportunities, including joint ventures.

Existing Impediments to Greater Trade, Investment and Economic Cooperation

Impediments to greater trade and investment flows between Indonesia and Australia still exist. The business sectors from Indonesia and Australia were consulted to provide insight into what are perceived to be the main obstacles to a stronger trade and investment relationship between the two countries.

Despite the entry into force of AANZFTA, tariffs on some goods remain. While Australia has committed to eliminate 100% of its tariff lines by 2020 and Indonesia 93.2% by 2025, IA-CEPA should consider accelerating the removal of these tariffs. Indonesia has retained tariffs on a number of agricultural and manufactured goods. IA-BPG recommends a complete removal of tariffs to maximise consumer choice and supply of raw materials to producers.

Complicated and often overlapping regulations and procedures have been identified as an impediment to trade, particularly in the agricultural, food importation, mining and professional services sectors. IA-CEPA negotiations should consider mechanisms for simplifying these regulatory processes to facilitate trade.

According to stakeholders, both Indonesia and Australia have complicated standards and certification processes which limit the free movement of products. Complicated SPS and food labelling standards are viewed as technical barriers and disincentives to cross-border trade. Capacity building in meeting quarantine, food and timber certification requirements is needed. Recognition of professional qualifications such as for health professionals has also been raised.

There are also trade restrictions such as import quotas and import licensing in place. Indonesia imposes import quotas (caps) on beef and live cattle and import licences for some commodities such as rice and sugar. Indonesia recently imposed a ban on raw minerals exports, and imposes a protective mining services policy which requires mining services to be provided by Indonesian companies. Protective regulations also exist in the services sector – under current regulations commercial presence of foreign companies is not permitted. Meanwhile, Australia applies strict regulations in the pharmaceuticals and botanicals sector.

Barriers to a freer movement of natural persons (MNP) are predominantly related to difficulties obtaining visas and work permits and a lack of mutual recognition of qualifications for skilled, semi-skilled and low-skilled labour. There are reports of people continually encountering difficulties when applying for business, tourist or student visas to visit Australia. Limitations on the movement of natural persons are acutely felt in the services sector including specialist services as well as lower skilled positions in the fields of tourism, hospitality, agriculture, mining and customer service.

Finally, limits on foreign investments represent a major factor in reducing investment flows between the two countries. Indonesia currently applies FDI (Foreign Direct Investment) restrictions to agriculture, mining and energy, and professional services. Australia has a relatively free investment regime and this should be mirrored by Indonesia in the IA-CEPA so that the conditions for direct foreign investment are reciprocal.

Aside from these trade barriers, the IA-BPG has identified several other broad issues which are not directly related to trade policies but may have a significant impact on the IA-CEPA. For this reason, these issues need to be addressed by both governments, either through IA-CEPA or elsewhere, so that the potential gains from economic partnership can be maximised.

Firstly, there is an issue of **market failure and lack of information**. Business practitioners from both countries have expressed a need for greater communication and information exchange regarding the available business opportunities in each country. Reliable information is an important element of business decision making, and uninformed parties are unlikely to be willing to invest in a new market. More importantly, there is a perception among Indonesian businesses that Australia is a relatively small market and difficult to penetrate.

Secondly, both Indonesia and Australia rely on foreign investment for growth. In Indonesia, commercial banks are generally unable to provide long-term loans as large shares of their deposits have short maturity. Hence, **improving access to capital** will improve overall supplies

of goods and services and thus will help to meet demands not only in Indonesia and Australia, but also in other countries.

Thirdly, **infrastructure and logistics** are prerequisites for the flow of goods and need special attention. Infrastructure encourages business innovations and improves a country's global competitiveness. But in Indonesia poor conditions of roads increase the costs for transporting goods, power shortages reduce production capacities, and lack of access to clean water often becomes the source of diseases. Meanwhile, the need for infrastructure development in Australia over the next decade is predicted to be between \$450 billion and \$770 billion and in Indonesia it is estimated at \$465 billion with two thirds of this amount supposed to be financed through foreign investments.

Lastly, **SMEs must be fostered** to realise the potential benefits and become driving forces of the Indonesia-Australia economic cooperation. SMEs are often threatened by concessional cross-border trade agreements as they see new competitors enter the market. The IA-CEPA should include provisions for continuous engagement with SMEs. They should be involved and informed of opportunities that may arise from liberalised trade, providing encouragement to move from a strictly domestic focus to engage in global supply chains.

Issues relating to government procurement, rules of origin, dispute settlement mechanisms, IP rights, and competition policy have been raised by a number of stakeholders during the consultation process. The IA-BPG believes that further discussions on these subjects may be required and developed in more detail by an expert committee as the IA-CEPA negotiations progress.

Strategic Models for Partnership

The IA-BPG believes that there are a number of prime areas of opportunity which could serve as models for strategic partnerships. These opportunities can become models upon which the economic relationship between Indonesia and Australia can be built and hence a permanent IA-BPG should be established to discuss more comprehensively how to best realise these opportunities.

Securing domestic food availability and participation in global food supply. Food security is not synonymous with food self-sufficiency. There needs to be a new paradigm where the key to food security is sustainability of supply and increased productivity. In this context, Australia and Indonesia are well placed to form a partnership to secure food availability through trade, two-way investments and economic partnerships and the development of integrated, reliable supply chains.

Advanced education and human resources development. In a globalised market, a skilled workforce is key to competitiveness and productivity. A complementarity exists between Indonesia and Australia in the education and human resources sector which represents an area of great potential for both countries. There are excellent opportunities for cooperation between Indonesia and Australia to help build education and research sector performance and consequently Indonesian labour market performance. Australia's aging population represents a complementarity with Indonesia's growing workforce of young skilled professionals. Indonesia's TVET sector is currently underperforming relative to the population and market needs. This

sector requires investment and capacity building. Greater cooperation in education will also address Australia's shortage of skilled workers in sectors such as the automotive and engineering trades, construction trades, hospitality and healthcare.

Improving health and quality of life. A greater level of partnership between Australia and Indonesia may also present opportunities in the health and health tourism sector which has shown significant growth over recent years. A complementarity exists in Australia's skills shortage of health professionals and aging population and Indonesia's skilled labour force. Green technology innovations are also relevant in this context. Often the Australian market is too small to generate global critical mass in new industries whereas in combination with Indonesia, critical mass and efficient cost bases can be achieved to supply local demand and global opportunities in areas such as electric vehicles, and novel power generation.

Technology sharing and development. There are numerous opportunities that can arise from Australian technological transfer to Indonesia, and these opportunities are cross-sectoral. Australia has a role to play in assisting Indonesia achieve food security by providing technology and expertise to increase agricultural productivity, as well as in mining, METS, pharmaceuticals and clean energy technology.

Establishing integrated value chains to increase consumer choice. The IA-CEPA should promote cooperation in the manufacturing sector and create cross-border value chains to develop products for a world market. Indonesia is capable of becoming a manufacturing hub for Australia similar to the way Australia has previously engaged with Japan and currently engages with China.

Pilot Projects. In order to build momentum for the IA-CEPA the IA-BPG has identified and agreed on two specific pilot projects which can be implemented with immediate effect.

These pilot projects are:

1. "A Healthy Diet" – Support for the MP3EI goal of increasing consumption of red meat in Indonesia, and also consumption of Indonesian tropical fruit in Australia.
2. "A Skilled Workforce" – To support increased skills development in Indonesia and Australia by facilitating easier movement of skilled people between countries and increased capability transfer.

Measures to overcome impediments

During the development of this report, the IA-BPG partners noticed a number of common themes which, if considered appropriately, could address concerns and opportunities for multiple sectors through cross cutting actions or initiatives.

The actions identified by the IA-BPG include:

1. Reducing all tariffs to zero for all tariff lines on entry into force
2. Removing all product quotas on entry into force
3. Removing all capital thresholds for business start ups

4. Removing all limits to equity holding in all businesses by nationals or companies from the IA-CEPA partners providing this meets the national interest test as overseen by the foreign investment review board or equivalent against transparent criteria
5. Allowing full and free movement of skilled people across our common border
6. Providing mutual recognition of educational and skill levels against international standards
7. Encouraging improved mutual cultural and language understanding through compulsory inclusion in school curriculums
8. Tailoring development assistance to facilitate these actions and provide the capacity in Indonesia to implement rapid economic development
9. To the extent possible, measures should be aimed at mutual cooperation and collaboration to access global supply chains and service provision

Sector by Sector

The IA-BPG has identified several major business sectors of special significance to cross-border trade and investment and gives in-depth consideration to the specific issues, opportunities, impediments and recommendations relating to each sector in Annex 1 of the paper. The broad business sectors are:

Agriculture and Agribusiness – significant trade already exists in agricultural food commodities, particularly from Australia to Indonesia. Impediments to trade in this sector relate mainly to issues of sanitary and phytosanitary regulations and capacity building, inadequate infrastructure and supply chain reliability in Indonesia, and complex and prohibitive regulatory frameworks for food certification and labelling. With rising demand for food products potential for growth in this sector is significant and opportunities lie in developing cross-border value chains to capitalise on existing complementarities in production and consumption. Two-way investment, joint ventures, capacity building, knowledge and technology transfer and removing trade restrictions are key to increasing trade and investment in this sector.

Mining and Energy – Indonesia and Australia are both large mining nations, and mining makes considerable contributions to GDP and exports of both countries. Indonesia currently exports significant levels of mining commodities to Australia, particularly oil and gold, and Australia is a major provider of mining services. The main issues in this sector relate to Indonesia's growing energy demands and energy security as well as investment uncertainty related to Indonesia's protective regulatory framework. Significant opportunities exist for technology transfer and joint ventures especially in green renewable technology, and mining equipment technology and services (METS). Liberalising investment, protective regulations and MNP would facilitate cross-border trade and growth in this sector.

Manufacturing – Indonesia's manufacturing sector has shown recent growth following a prolonged period of stagnation due to a lack of investment. Australian manufacturing is experiencing pressures brought on by a high dollar, rising energy costs, international competition and slowing domestic demand. Manufactured goods account for around one third of two-way exports for both countries. Given Indonesia's large labour force, opportunities exist for developing cross-border value chains in manufacturing industries boosting opportunities to

penetrate third-country markets. Logistics and transport issues remain an impediment to trade in manufactured goods in Indonesia.

Professional Services – Trade and investment barriers typically encountered in this sector include; lack of recognition of qualifications, restrictions on rights to practise, constraints on commercial presence, equity restrictions, poor quality intellectual property rules and protections and tax rules. Often there are limitations on minimum capital requirements for business start-ups in Indonesia which are based on manufacturing experience rather than services which require little capital for establishment. IA-CEPA should consider mechanisms for removing these impediments including mutual recognition of trade and professional qualifications, based on international standard equivalence, allowing people to practise in either country. Consideration should be given to allowing services professionals and corporations to be able to work and invest equally in both countries.

Education – Higher education, vocational education and training form a key strategy in achieving Indonesia's MP3EI development master plan goal of becoming one of the 10 major economies of the world by 2025. There are excellent opportunities for cooperation between Indonesia and Australia to help build education and research sector performance and consequently Indonesian labour market performance. Australia's TAFE, Universities and private education sector actively support Indonesia in achieving its MP3EI goals in cooperation with government policies. Indonesia is currently the seventh largest source of foreign students to Australian tertiary institutions. The numbers of Australian students studying in Indonesia are extremely low. IA-CEPA should include mechanisms for improving these levels.

Health Services – Indonesia is currently a large importer of health services via Indonesians travelling abroad for health treatment, largely to Singapore, Malaysia and Australia. Australia's technical capacity and knowledge base, aging population and shortage of health care professionals presents a complementarity for investment in Indonesian health care facilities and services, and work opportunities in Australia's health services industry for Indonesian health care professionals particularly nurses. MNP and FDI issues are an impediment to realising greater potential in this sector.

Green Economy – Indonesia and Australia are both large emitters of greenhouse gases and are highly reliant on fossil fuels for energy needs. However, significant potential exists for developing green economy initiatives such as clean energy technology from sources like solar and geothermal, mass transit development and electric vehicle technology. Indonesia can also benefit from the use of skilled Australian expertise for instance in water and technology efficiency, building design, waste management, clean coal technology and LNG use and conversion.

A more in-depth discussion of specific issues as they relate to each of these sectors is contained in Annex 1 of this report.

Summary of Recommendations

The Indonesia-Australia Business Partnership Group has agreed on the following consolidated list of recommendations for the IA-CEPA:

Tariffs

- Further reduce or eliminate tariffs to offer better prices and improve consumer choice and reassurance of product availability.
- Accelerate the tariff reduction schedule with all lines to zero at entry into force of the IA-CEPA for freer trade cooperation, especially for Indonesian tariff lines on agricultural products and Australian tariff lines on textiles and textile products.
- Remove all barriers to entry to create duty-free, quota-free, two-way access for food products and agricultural products on entry into force of IA-CEPA.
- Green technology should be free of tariff and trade restrictions.

Trade regulations and procedures

- Promote transparent and seamless regulatory processes based on international standards with a better application of the rule of law and a well-resourced and independent regulatory structure, to further improve the investment and trading environment.
- Centralisation of approvals for the exploitation of natural resources in Indonesia by the national government or competent regional authority using consistent and transparent decision criteria.
- Establish a joint industry/Australian government/Indonesian government monitoring and consultation mechanism regarding new or enhanced food regulations.

Technical barriers to trade

- Technical requirements and import procedures should be in accordance with international best practise, be transparent and not act as non-tariff barriers to trade.
- Establish greater exchange of information on standards and certification applied in both countries.
- Harmonise acceptable health, safety and quality standards across the partner economies.
- Develop and implement clear and certain *halal* certification standards.
- Australia should consider not only technical assistance at a scientific level but also deeper engagement by actual primary producers to assist in the development of Indonesia's agricultural industries to meet the standards required for entry to the Australian market.
- Accept SVLK (the Indonesian Timber Legality Verification System) as the certification system for IA-CEPA with regard to forestry products.
- Quarantine agencies need to collaborate in order to avoid double quarantine processes.
- Remove restrictive standards on goods imports that are not related to health and safety.

Trade restrictions such as import quotas (caps) and licensing

- Establish greater exchange of information on standards and certification.
- Remove all barriers to entry to create duty-free quota-free two-way access for food products and agricultural products.

- Remove all export restrictions.
- Establish an approach of using import declarations that a product is being imported at valid economic costs to reduce vexatious claims such as “dumping” and trigger a chain of responsibility approach to false claims.
- Remove caps on import permits.
- Remove restrictive standards on goods imports that are not related to health and safety.
- Remove all barriers to professional practice and establishment of service businesses.
- Australia and Indonesia to negotiate greater access to the service sectors of both countries.
- Establish more flexible arrangements on commercial presence of foreign services providers.

Barriers to movement of natural persons

- Mutual recognition of qualifications and certification by both countries to facilitate trade in services and movement of skilled workers.
- Adjust the definition of “skilled” in reference to the IA-CEPA to recognise that skilled workers can possess vocational skills without formal qualifications.
- Australia also points to the importance of Indonesia’s skills training agenda to significantly increase capacity in education through expanding and developing its Vocational High Schools (SMKs) and polytechnic network, including more polytechnic lecturers, building competency standards, industry engagement, VET quality, international VET partnerships and staff exchange and creating centres of excellence in each of Indonesia’s six economic corridors.
- Promote education cooperation, which includes standards on education curricula and teacher competencies.
- Encourage freer movement of skilled people between the two countries. Encourage employment of skilled Indonesians and Australians in both countries.
- Encourage alternative solutions for short term migrant workers with limited English proficiency, for example by providing “forepersons with a high level of English supervising work groups” similar to a system which operates in New Zealand for fruit pickers and packers.
- Remove two-way barriers for the movement of skilled workers in the following areas:
 - production agriculture, science, food processing and supply chain logistics.
 - the agricultural sector to allow for training and working in both economies to facilitate skills development and transfer.
 - standard setting, certification and assessment.
 - mining, energy, engineering and environmental management personnel.
 - skills development, training and technology transfer in the mining, energy, engineering and environmental management fields.
- Mutual skills recognition, including developing training between professional associations or vocational schools and the possibility of establishing a joint committee or institution to facilitate initiatives in the field of education.
- Simplification of work permits for lecturers, teachers and researchers, and more relaxed visa provisions for students.
- Create a special visa category under IA-CEPA to facilitate service industry movement of skilled people.

- Encourage more relaxed restrictions on temporary entry and work permits for professional services personnel.

Foreign direct investment restrictions

- Remove two-way barriers to investment in land, production facilities such as feedlots, processing facilities such as abattoirs, flour mills, food processing and consumer good manufacturing, logistics, distribution and marketing chains.
- Remove restrictions on establishment of investment in educational institutions and the delivery of education (vocational and higher education) for people involved in the complete food supply chain (paddock to plate).
- Remove all restrictions to investment in agriculture and the food production, distribution and marketing chain.
- Remove barriers to foreign investment and service provision from Australia.
- Remove two-way barriers to investment in land in consumer good manufacturing, logistics, distribution and marketing chains.
- Lift restrictions on foreign equity.
- Lift restrictions on service provision.
- Relaxation of Indonesia's FDI regulations is seen as key to knowledge and technology transfer in this area.
- Remove two-way barriers to investment.
- More flexible arrangements on commercial presence of foreign services providers.
- Governments should encourage micro economic reform designed to improve the productivity and competitiveness of industry.
- Remove barriers to establishment of natural resource development service industry.

Communication and exchange of information

- Develop accessible and transparent information about regulations or standards required for market entry and how these can be met.
- Greater information exchange for all Indonesian and Australian business people.
- Establish a national virtual geoscience library, which allows searching and downloading of data using web browsers and bringing data under one globally-accessible national database, which saves time and resources.
- Investors in Australia and Indonesia need to be made aware of the direct business benefits and indirect regional benefits of investing to drive greater investment relations.
- Establish an amalgam of national, regional and local government initiatives to provide market information and encourage market access coupled with private sector contact.
- Improve two-way cultural understanding and respect for local practices as well as animal welfare to increase the capacity to produce quality economical consumer goods.

Acronyms and Abbreviations

AANZFTA	ASEAN-Australia New Zealand Free Trade Agreement
ABE	Association of Electrical Goods and Services
ACCC	Australian Competition and Consumer Commission
ACCI	Australian Chamber of Commerce and Industry
ACFTA	ASEAN-China Free Trade Agreement
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AGII	Indonesian Industrial Gas Association
AIBC	Australia Indonesia Business Council
AKPI	Indonesian Resort Association
APBI-ICMA	Indonesian Coal Mining Association
APEC	Asia-Pacific Economic Cooperation
API	Indonesian Textile Industries Association
API-IMA	Indonesian Mining Association
APIKI	Indonesian Fish Cannery Association
APINDO	Employers' Association of Indonesia
APJATI	Indonesian Manpower Services Association
APKI	Association of Indonesian Pulp and Paper
APKINDO	Indonesian Wood Panel Association
APRINDO	Indonesian Retail Merchants Association
APRISINDO	Indonesian Footwear Manufacturers Association
APSYFI	Indonesian Synthetic Fiber Manufacturers Association
APTINDO	Association of Indonesian Wheat Flour Producers
APTISI	Indonesian Private Colleges Association
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investments Commission
ASKINDO	Indonesian Cocoa Association
ASPINDO	Indonesian Mining Services Association
AUMI	Indonesian Medium-Sized Business Association
AusAID	Australian Government Overseas Aid Program
B2B	Business to Business
Bapepam-LK	Indonesian Capital Market and Financial Institutions Supervisory Agency

BAPPENAS	National Development Agency
BKPM	Indonesia Investment Coordinating Board
BPOM	Indonesian National Agency for Drug & Food Control
BSN	National Certification Agency
BULOG	Indonesian state run Board of Logistics
CBU	Complete Build-up Units
CIE	Centre for International Economics
CPM	Carbon Pricing Mechanism
DFAT	Australian Department of Foreign Affairs and Trade
EU	European Union
FDI	Foreign Direct Investment
FLEGT	Forest Law Enforcement, Governance and Trade
FTA	Free Trade Agreement
G20	Group of 20, a group of Finance Ministers and Central Bank Governors from 20 major economies: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Korea, Turkey, the United Kingdom, United States and European Union; the G-20 is a forum for cooperation and consultation on matters pertaining to the international financial system
G2B	Government to Business
GAPKI	Indonesian Palm Oil Producers Association
GAPMMI	Indonesian Food and Beverage Producers Association
GDP	Gross Domestic Product
GINSI	Association of National Importers
GMO	Genetically Modified Organisms
GP FARMASI INDONESIA	Indonesian Pharmaceutical Entrepreneurs
GP JAMU INDONESIA	Indonesian Herbal Medicine Entrepreneurs
GPEI	Indonesian Exporters Association
GW	Gigawatt
HIPMI	Indonesian Young Entrepreneurs Association
IABC	Indonesia Australia Business Council
IA-BPG	Indonesia Australia Business Partnership Group
IA-CEPA	Indonesia Australia Comprehensive Economic Partnership Agreement
IAI	Indonesian Institute of Accountants
IELTS	International English Language Testing System
INKINDO	National Association of Indonesian Consultants

IP	Intellectual Property
IPR	Intellectual Property Rights
ISWA	Indonesian Sawmill and Wood Working Association
KADIN Indonesia	Indonesian Chamber of Commerce and Industry
KITAS	Kartu Izin Tinggal Terbatas (Limited Stay Permit Card)
KPPU	Indonesian Business Competition Supervisory Commission
METS	Mining Equipment Technology and Services
ML Number	A code or registration number issued by BPOM for all imported food products in Indonesia
MNP	Movement of Natural Persons
MP3EI	Masterplan for the Acceleration and Expansion of the Indonesian Economy
MRRT	Minerals Resource Rent Tax
MUI	Council of Ulama
MW	Megawatt
NAMPA	National Meat Professionals Association
NSW	New South Wales
PERADI	Indonesian Advocates Association
PERBANAS	Indonesian Banks Association
PLN	Indonesian National Electricity Company
PMV	Passenger Motor Vehicles
PPNI	Indonesian National Association of Nurses
PPP	Public Private Partnership
PWC	PricewaterhouseCoopers
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership
REDD	Reducing Emissions from Deforestation and Forest Degradation
REDD+	is similar to REDD, but instead of just covering deforestation and degradation, it includes other activities, such as the sustainable management of forests and the enhancement of forest carbon stocks
SMEs	Small and Medium Enterprises
SMK	Indonesian Vocational High School
SNI	Indonesian National Standards
SPS	Sanitary and Phytosanitary
SVLK	Indonesian Timber Legality Verification System
TAFE	Technical and Further Education



TRIP	Trade Related Aspects of Intellectual Property Rights
TVET	Technical Vocational Education and Training
UNEP	United Nations Environmental Services
UNFCCC	United Nations Framework Convention on Climate Change
US	United States of America
VET	Virtual Education Trust
WEDF	World Export Development Forum
WTO	World Trade Organization

Business expectations on fundamental principles and features

Building upon strong foundations

The relationship between Australia and Indonesia has never been stronger. Australia and Indonesia are close neighbours with a highly productive relationship that encompasses political, security, commercial, environmental, cultural and people-to-people links. The strength of the relationship can be seen in the depth and breadth of high level exchanges between leaders, ministers and prominent people of both countries. It is widely believed that relations between Indonesia and Australia are entering a new unprecedented phase. Indonesia is one of Australia's most important bilateral relationships on almost all fronts. However, a key area which is underperforming is trade and investment with significant opportunities and potential remaining untapped despite being complementary economies.

To help overcome this situation, Indonesian and Australian Leaders announced in November 2010 the intention to negotiate the Indonesia-Australia Comprehensive Economic Partnership Agreement. The IA-CEPA will go beyond a traditional Free Trade Agreement. It will underpin a strategic partnership between two nations, encompassing trade, investment, economic cooperation and capacity building. The negotiations will take as starting points the signed AANZFTA, and other regional trade agreements and aspirations.

In addition to focusing on tariff elimination, non-tariff barriers will also be addressed in the IA-CEPA. For that reason the governments encourage business communities in both countries to get involved further by providing submissions on how they think the IA-CEPA will be most beneficial for both parties through G2B engagement and/or B2B engagement.

In early July, 2012, during an annual meeting between Indonesia and Australia, the President of the Republic of Indonesia Susilo Bambang Yudhoyono and Australian Prime Minister, Julia Gillard agreed to commence negotiations for an Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), following up on their commitments of November 20, 2011. The IA-CEPA is expected to increase two-way Foreign Direct Investment (FDI) and facilitate capacity building in Indonesia, for example in agriculture, extractive industries, services and the green economy.

The Australian Chamber of Commerce and Industry (ACCI), the Indonesian Chamber of Commerce and Industry (KADIN Indonesia), the Indonesia Australia Business Council (IABC) and the Australia Indonesia Business Council (AIBC), support the concept and vision of the IA-CEPA. Businesses believe that there are many opportunities for partnerships that can be developed between Indonesia and Australia – partnerships that will deepen the economic engagement of the two economies within a global economy. The IA-CEPA has the potential to go well beyond a traditional Free Trade Agreement. It has the opportunity to become a strategic partnership

between two nations, encompassing trade, investment, economic cooperation and capacity building.

To underline the significance of the IA-CEPA to business communities, ACCI, AIBC, KADIN and IABC, in a groundbreaking initiative, established the Indonesia-Australia Business Partnership Group (IA-BPG) with support funding from AusAID through the Australian Department of Foreign Affairs and Trade. The IA-BPG has developed joint Indonesia-Australia business positions on the opportunities for much greater trade, investment and business cooperation. To achieve this, the IA-BPG has led a business consultation process in Indonesia and Australia through discussions, interviews and written submissions gathering as much input as possible from business communities. Business inputs have been addressed in detail by the IA-BPG through a series of meetings where commonalities were identified and sound advice and recommendations for forming a comprehensive partnership between both countries were formulated.

The Australian and Indonesian economies are the largest and among the most promising in the region. Both economies have good fundamentals, enabling growth in the post 2008/09 global financial crisis period. Indonesia's economy has enormous promise and the potential to become the world's seventh largest economy by 2030 (McKinsey, 2012). Meanwhile, Australia is one of the most developed, most resilient and strongest economies in the world, founded on a strong commitment to open-market policies that facilitate trade and investment. Considering the global move toward regional cooperation and more liberalised and globalised trade and investment, a comprehensive partnership between both neighbouring economies is timely. This will enable both countries to work together to boost growth and maximise potentials – including jointly accessing global markets.

In 2011, two-way trade in goods and services rose 15% to reach A\$14.8 billion. Australia recorded a A\$1.5 billion trade deficit with Indonesia in 2011¹. Indonesia is Australia's fourth largest trading partner in ASEAN and 12th largest trading partner overall, and 11th largest export market. Conversely, Australia is Indonesia's ninth largest trading partner, and ninth largest export market.

In relative terms Australia and Indonesia's two-way investment is small. In 2009 Australia's total investment stock in Indonesia was A\$4.8 billion, A\$3.1 billion of which was direct investment. Australian investment in Indonesia in 2011 was estimated at A\$5.4 billion. In 2009 Indonesia's total investment stock in Australia was A\$339 million. Indonesian investment in Australia rose 11% to A\$454 million in 2011².

There are major opportunities for better business cooperation between both countries, to the benefit of both. But there is a lack of communication and systematic exchange of information on business opportunities. As a result, many businesses from one country have not pursued opportunities with the other. This lack of information, leading to poor understanding and clear market failure, is a major hindrance to the increase of trade and investment cooperation.

Indonesia and Australia have resources and capacities that complement each other's needs. According to a study conducted by the Centre for International Economics (CIE, 2009) Indonesia

¹ DFAT (http://www.dfat.gov.au/geo/indonesia/indonesia_brief.html) & BKPM & BPS- Statistic Indonesia.

² DFAT (http://www.dfat.gov.au/geo/indonesia/indonesia_brief.html) & BKPM & BPS- Statistic Indonesia.

and Australia are well-matched economies, with complementary production and consumption patterns. This suggests that economic cooperation and increased trade will benefit both countries and will result in gains to welfare.

The leaders of the two nations support the concept of an economic partnership driven by closer business relationships:

"Australia and Indonesia have a great future together. We are not just neighbours, we are not just friends; we are strategic partners. We are equal stakeholders in a common future with much to gain if we get this relationship right and much to lose if we get it wrong..."

"We need to encourage our private sector to do more business with one another."

*His Excellency, Dr Susilo Bambang Yudhoyono, President of the Republic of Indonesia,
Canberra, March 17, 2010.*

"I'm pleased that today, as our relationship strengthens, we have been able to agree to our two countries entering a comprehensive economic partnership - one that not only comprehends further trade liberalisation but deals with the full range of economic issues that bring our countries together including investment, business-to-business links and capacity building."

*The Hon Julia Gillard, Prime Minister of Australia,
Jakarta, November 3, 2010.*

"The gap between the actual (economic) relationship and the potential is the greater of any."

*The Hon Dr Craig Emerson, Australian Minister for Trade,
Bali, November 20, 2011*

"... First, growth markets need to prioritise trade facilitation, especially by developing both hard and soft infrastructures..."

Second, growth markets need to tackle the existing trade barriers..."

And third, growth markets must address the supply chain gaps and opportunities. Global supply chain links are critical to the global trade..."

Opening Remarks by His Excellency, Dr Susilo Bambang Yudhoyono, President of the Republic of Indonesia, at the World Export Development Forum (WEDF) 2012, Jakarta, October 15, 2012.

Indonesia and Australia are parties to a number of agreements and economic partnerships that reflect a trend toward a freer trade environment and global economic integration. Indonesia and Australia are parties in the AANZFTA which provides the basis for more liberalised trade

between Indonesia and Australia as well as between both countries and ASEAN and New Zealand. ASEAN is also heading towards a more liberalised and integrated economy. The ASEAN Economic Community (AEC) aims to achieve a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy by 2015. APEC, of which Indonesia and Australia are both members, promotes trade and investment liberalisation. This provides many precedents upon which the IA-CEPA can be built.

Furthermore, Australia and Indonesia are both members of the WTO and the G20. At the 8th WTO Ministerial Conference in December 2011, ministers “commit[ed] to advance negotiations, where progress can be achieved”. They also recognised that “members need to more fully explore different negotiating approaches while respecting the principles of transparency and inclusiveness”.³ More recently at the G20 Summit in Los Cabos (Mexico) and in a similar spirit, G20 leaders reaffirmed their “commitment to pursue fresh, credible approaches to furthering trade negotiations across the board”.

Considering that Indonesia will host the next APEC meeting and WTO Ministerial meeting in 2013 and Australia will host the G20 in 2014, it is important that both countries show leadership in trade and investment liberalisation with a strong IA-CEPA in place well before these important regional and global meetings.

The concept of the IA-CEPA is undoubtedly complementary to the ASEAN, AANZFTA, APEC and WTO agendas. The final agreement must also be complementary and support these agreements. The characteristics of the ASEAN Economic Community provide benchmarks for both the AANZFTA and the IA-CEPA to provide significant opportunities for the IA-CEPA to leverage rapid progress towards ASEAN economic integration.

IA-CEPA general principles

The IA-BPG supports the concept of an IA-CEPA that is much broader than an FTA. The IA-CEPA should also reflect more advanced commitments than the ASEAN-Australia New Zealand Free Trade Agreement (AANZFTA). The IA-CEPA will lay the foundations for a comprehensive partnership between Indonesia and Australia that facilitates much greater trade, investment and joint business activity, utilising joint efforts between governments, relevant organisations, businesses and educational institutions as well as capacity building in areas that will have a strategic impact on bilateral economic relations. The free flow of raw materials and partially manufactured goods, capital and services will also enable economically efficient production chains to facilitate access to global markets and supply chains beyond our mutual borders.

The basic features of IA-CEPA as identified and recommended jointly by the business communities of Indonesia and Australia are as follows:

- Removal of all trade barriers:
 - Reducing tariffs without, or with very limited, exclusion.

³ Statement by Olusegun Olutoyin Aganga, Chair of the Ministerial Conference, Nigeria's Trade and Investment Minister, WTO, Geneva.

- Removal of unnecessary non-tariff trade barriers including quotas and trade bans except those that are consistent with WTO rules.
- Reduction of market access restrictions to services.
- Further liberalisation of two-way trade in goods through faster tariff reductions and lowering of at-the-border and behind-the-border barriers to enable producers in both countries to access each other's markets and in the process gain experience for accessing other markets.
- Liberalisation of two-way trade in services, including movement of natural persons (skilled workers) to enable service providers in each country to access markets and fill demand for services, knowledge and technology, enhancing both provider and customer sectors.
- Investment facilitation in all sectors through more effective investment promotion and reduction or removal of restrictions to increase economic activity in both economies.
- Harmonisation and simplification of rules, including mutual recognition of technical standards of goods and services, professional qualifications, standards and classification of goods for customs purposes that will improve trade facilitation.
- Facilitating movement of skilled persons and capacity building for less skilled workers including in-market experience and improved language skills, to increase the pool of available people to support mutual economic development.
- Value chain integration by cross-border cooperation:
 - To take advantage of internal markets.
 - To participate in global supply chains.
- Managing the transition period through capacity building:
 - Improvement in government procedures and policy development such as micro-economic reform and competition policy, government procurement liberalisation, etc.
 - Development of special economic schemes to target sectors with unique requirements.
 - Institutional development or innovation such as managing integrated natural resource management of river basins, developing robust frameworks for public-private partnerships.
 - Training, education and research.
 - Closer information exchange on bilateral business opportunities.
 - Improved two-way cultural and language skills and understanding.
- Promoting the green economy and trade through identification of joint opportunities, lowering of barriers to trade and investment in green production and services.
- Promoting the development of SMEs and cooperation between SMEs from Indonesia and Australia.
- Seeking mechanisms that facilitate *regional* business development in addition to business in the current economic centres of both countries.
- Identifying business development initiatives that provide net benefits to the disadvantaged and to women.

- Building momentum in key areas to pave the way towards stronger partnerships, comprising measures that can be implemented rapidly with positive effect, including while negotiations are proceeding.
- Including mechanisms aimed at assisting the implementation of the Indonesian Economic Masterplan (MP3EI).

Key features of the IA-CEPA

The Indonesian and Australian business communities agree that the IA-CEPA should be characterised by the following features:

1. **Economic cooperation.** The primacy of economic cooperation over standard free trade agreements has been emphasised throughout the IA-BPG's deliberations. The potential gains from strategic cooperation between both countries' private sectors and governments are enormous, especially in cross-border value integration along the value chain of the economic and business processes. The fact that both economies are essentially complementary in terms of resources and capabilities has made the case even more compelling. Australia's growing development assistance program will be both a key economic cooperation mechanism in itself and an enabler of private sector economic cooperation through building of economic capacity and facilitating development of markets and value chains.
2. **IA-CEPA as a dynamic and growing process.** IA-CEPA should be a living process, a work in progress that needs consistent implementation, monitoring and evaluation as well as improvement over time. It is therefore recommended that an ongoing process of business input, including some form of permanent framework be established between the two countries' governments and private sectors to oversee the transformation and progress.
3. **Fostering inclusive growth in both countries.** Inclusiveness encompasses equity, equality of opportunity, and support in market and employment transitions. Inclusive growth should contribute to sustained poverty reduction allowing people to participate in and benefit from economic growth. It is an essential item for a successful growth strategy that should be a key feature in the IA-CEPA. Equality of opportunity in terms of gender impacts and geographic spread of the opportunities and benefits, access to markets, resources, and unbiased regulatory environment for businesses and individuals should also be emphasized. Inclusive growth also implies a longer term perspective with regards to the targeted impacts to be achieved.
4. **Continuous engagement with stakeholders.** The IA-CEPA is expected to have a broad and far-reaching impact on both economies. This will require a transformation strategy that will facilitate and encourage changes within the business sector, especially SMEs. Continuous engagement with business communities in both countries is needed to ensure high awareness and buy-in. The IA-CEPA should also be practical, providing immediate outcomes through short term actions and solutions, and yet maintain a long term aim and vision.
5. **Include measures to tackle the information shortage and market failure.** Businesses from both countries identified a lack of available information regarding business and trade opportunities in both markets. This lack of information – and even misinformation – is a

major hindrance to the increase of trade and investment cooperation. While a significant business relationship already exists between the two countries, business stakeholders feel that this represents a narrow base and that much would be gained from organised and systematic business information sharing and awareness-raising in both countries. Measures creating a greater and more systematic flow of information and exchange as well as funding for trade and investment promotion should be a key feature of the IA-CEPA.

Business involvement and stakeholder engagement in IA-CEPA

The establishment of the IA-BPG and the resulting consultation and discussions between business associations in Indonesia and Australia is a unique and groundbreaking approach to stakeholder involvement in a G2G negotiation process such as the IA-CEPA. The IA-BPG process has enabled business communities from both countries to voice their opinions to shape the economic and trade relationships that Indonesia and Australia are trying to build.

Nevertheless, although this position paper reflects the broadly held position of Indonesian and Australian business, it is not possible for the paper to reflect the views of business on every aspect of the IA-CEPA.

As negotiations proceed between the two Governments, business will need ongoing opportunities for input, particularly on the sectoral detail of the IA-CEPA, as well as on cross-sectoral and economic cooperation matters.

In addition, the BPG has pointed out that the process is almost as important as the outcome in that the recent and ongoing consultations will be important in informing business about the opportunities and in overcoming information deficits and market failure.

Further, as noted above, the IA-BPG believes that the IA-CEPA should be a dynamic agreement that can be adapted over time. In this context, the IA-BPG recommends the following to be established during the IA-CEPA negotiations:

- ***Establishment of a permanent Indonesia-Australia Business Partnership Group for involvement in the IA-CEPA process.*** The IA-BPG recommends that an ongoing process of business input, including a permanent government-business committee, be established to oversee the implementation and further development of the IA-CEPA. The IA-BPG suggests the committee should consist of representatives from the business community, sector experts and other stakeholder representatives (including academics) from both countries who will discuss in detail the opportunities and issues raised in this paper. In line with the intention to make the IA-CEPA a living process, the IA-BPG will continue to provide input and suggestions on the IA-CEPA negotiation process and its application. The IA-BPG commends the commitment of the Department of Foreign Affairs and Trade (Australia) and the Ministry of Trade (Indonesia) to accommodate mechanisms to involve business and seek their input.
- ***Continuing Business to Business Engagement.*** Initiatives such as the IA-BPG should become a model for business associations from both countries to engage with each other to discuss and identify opportunities for cooperation. Chambers of Commerce and Business Councils could be the drivers in both countries and encourage their members to foster closer relationships with their counterparts in Indonesia or Australia. Businesses from both

countries need to start looking at the significant opportunities that can be achieved by working together. Business to business engagement is also an efficient way to overcome the current market failure.

- **Broader Stakeholder Engagement.** The IA-BPG also concluded during its deliberations that stakeholder engagement should not be limited to businesses only. IA-CEPA should include provisions for engaging with a broader set of stakeholders that can have a significant impact on the upcoming IA-CEPA. This should include the media, civil society, universities and local government institutions. Engagement with these stakeholder groups in both countries is needed to ensure high awareness and buy-in. As an example, there is a general cynicism towards FTAs, CEPAs and an open economy in Indonesia. Meanwhile in Australia there are negative and out-dated views about Indonesia that inhibit cooperation. This will need to be tackled strategically through stakeholder engagement activities. Engagement with the mass media is important considering its capacity to influence public opinion. False perceptions on both sides are in many ways fed by the media.

Key opportunities for the IA-CEPA

The IA-BPG has identified some key opportunities for partnerships that can be developed between Indonesia and Australia. As mentioned above, the two countries have resources and capacities that are complementary. The gains from trade liberalisation will be greatest if the two countries are complementary trading partners.

Economic partnership opportunities encompass, in summary:

- **Developing cross-border, integrated industries and value chains** in both goods and services that utilise the comparative advantages of each country to supply both domestic and third-country markets in ways that neither country could achieve on its own.
- **Enabling greater sharing of knowledge and technology** through harmonising standards and regulations; recognising qualifications; recognising intellectual property rights; establishing dispute resolution mechanisms; building education, training and professional development cooperation; facilitating joint ventures and business licensing; and encouraging movement of skilled people between the two countries.
- **Facilitating economic cooperation through an enhanced program of development assistance** that is focused on building economic capacity, developing skills, sharing market information, enabling market access, facilitating development of value chains, building local businesses and enhancing cooperation between government development assistance activities and the private sector.
- **Acknowledging the direct link between investment in the services sector and capacity building.**
- **Building two-way investment** by developing competitive markets, lowering barriers, reducing risks and promoting investment opportunities, including joint ventures.

Existing impediments to trade, investment and economic cooperation & recommendations

Despite recent trade liberalisation, a range of impediments to greater trade and investment flows between Indonesia and Australia still exist.

During consultations and BPG discussions, the business sectors from Indonesia and Australia, as drivers of trade and investment, drew on their knowledge and experience to provide insight into what are perceived to be the main obstacles to a stronger trade and investment relationship between the two countries.

Recommendations and expectations for the IA-CEPA expressed during consultations formed a starting point for the IA-BPG in devising this Position Paper. As discussed above, an ongoing stakeholder engagement process is an essential element in drawing advice from a wide range of stakeholders and to develop the key pillars and sectoral and cross-sectoral detail of the IA-CEPA.

Despite the opportunities to develop comprehensive partnerships in many sectors between Indonesia and Australia, and despite their obvious benefits, the following section outlines several issues that continue to hamper trade and investment between the two countries.

Trade and investments barriers

A more open and free flow of goods and services, with a high realisation of investment should be the main goals of the IA-CEPA according to business communities. This cannot be achieved if trade and investment barriers remain in place. Business communities in both countries have welcomed the consultation process by the IA-BPG, as a means for communicating their concerns and recommendations for IA-CEPA. Barriers to trade and investment as identified by business stakeholders are as follows:

Remaining tariffs

Despite the entry into force of AANZFTA, remaining tariffs create higher costs for imported goods. Therefore reducing tariffs can facilitate the flow of goods and result in cheaper products for consumers. IA-CEPA negotiations should consider accelerating the AANZFTA commitments to tariff reductions to ensure both countries reap the benefits of liberalised markets in a timely manner. Accelerating this reduction for some goods will be feasible where it can be demonstrated that it is in both countries' interests to do so. This is aligned with the APEC leaders agreement on the APEC Environmental Goods list on 9 September 2012, where all parties agreed to the removal of tariffs on certain environmental goods by 2015⁴ to promote exports, jobs and advance green economic growth and sustainable development.

⁴ The APEC List of Environmental Goods includes 54 environmental goods that will have tariff reductions to 5% or less by the end of 2015 taking into account economic circumstances and without prejudice to APEC member positions in the WTO.

Currently Australia has more advanced commitments and initiatives towards tariff elimination compared to Indonesia based on the Percentage of Tariff Lines with Tariff-Free Treatment factsheet by AANZFTA. Overall, Australia is committed to 100% elimination of tariff lines by 2020 while Indonesia can only commit to eliminating 93.2 % of overall tariffs by 2025.

The factsheet also shows that Indonesia has reduced but not eliminated tariffs on a range of agricultural and agribusiness products, including live cattle, certain categories of sheepmeat, frozen pork, processed seafood, several dairy products⁵, and some fresh and processed fruit and vegetables. On the other hand, Australia has already opened up its markets with tariff elimination on most agricultural products. However, Australian products such as mandarins are still subject to tariffs in Indonesia while the same products from China are tariff-free under the ASEAN-China Free Trade Agreement (ACFTA). For dairy products, especially milk, Indonesian government policies designed to protect local dairy producers may become unfavourable towards the milk processing industry, according to stakeholders.

A number of sensitive agricultural products such as rice, sugar, wine and spirits are excluded from Indonesia's AANZFTA tariff reduction commitments, therefore some products continue to be subject to high tariffs. The Indonesian government is of the view that rice and sugar are the main agricultural commodities that need to be regulated and monitored considering the high consumption rates of those products and to protect local farmers. To ensure the availability of rice, the Indonesian government applies tight regulations with limited import licences issued through BULOG⁶.

This approach not only hampers trade relations but also creates limitations on customer access to products. For example, with growing demand for rice, and the applied tariff for imported rice of Rp450/kg⁷, this limits customer choices for products and better prices. Tariffs are applied to cane sugar of Rp550/kg and other sugar of Rp790/kg; beer and malt are subject to a 40% tariff; and up to 170% tariffs are applied to wine and spirits. Another example comes from the Indonesian meat processing industry, which sources much of its supply from Australia, where a reduction of tariffs would reduce costs and enable the industry to pass on better prices to consumers.

With a projected 96.5% of tariff lines eliminated by 2013, Australia will still apply tariffs on several lines of products, especially in manufacturing until 2020. For example woven fabric textiles; wool carpet; terry towelling; cotton knitted and crocheted fabrics will still be subject to tariffs until 2019. As for apparel and clothing accessories a 15% tariff is applied and will be gradually reduced to 10% in 2019.

In manufacturing, Indonesia is reducing but not eliminating tariffs on several items, including automotive products, passenger motor vehicles, as well as iron and steel lines. For automotive products and Passenger Motor Vehicles (PMV), tariffs on 124 lines will be reduced but not eliminated. Slow phasing tariffs apply to vehicles with spark ignition engines exceeding 4000 cc and for all PMVs with diesel engines that will be reduced to 50% in one step in 2025, and other vehicles such as Complete Build-up Units (CBU) with engines other than spark ignition, electric or diesel which will only be reduced and not eliminated. Meanwhile, on iron and steel lines,

⁵ Milk and cream will still be subject to a 4% tariff, as well as for whey and powdered cheese.

⁶ BULOG is the Indonesian state run Board of Logistics.

⁷ Ministry of Finance, Ministerial Regulation No.65, on 2011 (No.65/PMK.011/2011, 31 March 2011).

tariffs on 187 lines will be reduced to levels no higher than 5% and tariffs on all 795 lines will be bound in the 0-5% range by 2025.

A similar phenomenon can be observed in Australia where the government applies slower phasing out arrangements for tariffs on passenger motor vehicles manufactured in Indonesia. Furthermore, in Australia, a number of manufactured products are subject to tariffs including some apparel and clothing products made from wool, cotton and other textile fibres. Some tariff lines on textiles and textile products in Australia remain, and will only be phased out completely by 2020. 127 tariff lines on clothing in Australia will be reduced to 0% in 2020 and 22 lines in 2015. Eliminating these tariffs more quickly under IA-CEPA will open up opportunities for Indonesian textiles and clothing producers to compete with Chinese products in the Australian market.

A complete removal of tariffs on manufactured goods would maximise consumer choice and enable producers to have greater access to raw or semi-finished materials and improve their competitiveness in the global market. Indonesia's high tariff barriers on wine products despite high levels of demand shows that current policies do not yet reflect the interests of consumers. This situation may lead to increased smuggling or sale of unlicensed, illegal products in the market.

RECOMMENDATIONS

- Further reduce or eliminate tariffs to offer better prices and improve consumer choice and reassurance of product availability.
- Accelerate the tariff reduction schedule with all lines to zero at entry into force of the IA-CEPA for freer trade cooperation, especially for Indonesian tariff lines on agricultural products and Australian tariff lines on textiles and textile products.
- Remove all barriers to entry to create a duty-free quota-free two-way access for food products and agricultural products on entry into force of IA-CEPA.
- Green technology should be free of tariff and trade restrictions.

Trade regulations and procedures

Complicated regulations and procedures often hamper the free movement of goods and services. Regulations are often overlapping and unclear, causing delays to business processes. Related to **food and food products**, regulations are often unclear and confusing and inconsistently enforced which worsens the situation. All imported products for retail purposes must be registered with the Indonesian National Agency for Drug & Food Control (BPOM) to obtain ML numbers. This process is viewed as administratively cumbersome and non-transparent. Exporters report delays of 6 to 18 months to secure ML registration. Furthermore, ML registrations are specific to importer and location as well as product, which significantly complicates market development. As it is bound to the location and product, any changes in the importer's address can create an impediment for business where it requires re-registration. Beside the requirement for obtaining ML numbers, importers are also required to obtain *halal*⁸

⁸ *Halal* in Arabic means permitted or lawful. It designates any object or any action which is permissible to use or be engaged in by Muslims. Hence, *halal* foods are foods that are allowed to be consumed by Muslims, in accordance with Islamic law. *Halal* certification is a system designed to facilitate Muslim consumers' dietary choices. *Halal* not only concerns slaughtering methods, but also the contents of the product and industrial processes involved in making the product.

certification from the Indonesian Council of Ulama (MUI) as the top muslim clerical body⁹. Also, certain products require Indonesian National Standards (SNI) certification from the National Certification Agency (BSN), as well as permits and licences from the Ministry of Trade. Despite the growth of demand and business opportunities in Indonesia, the lack of transparency and overly complex regulatory environment dissuades Australian businesses from trading with Indonesia.

Indonesia's **mining and energy sectors** usually have complicated and overlapping regulations that create serious impediments to business. Earlier this year, the Indonesian government issued a series of regulations, which has created confusion for both local and foreign investors, especially small-medium scale companies. These regulations are:

- 1) a requirement to process raw mineral commodities in the country
- 2) divestment obligations
- 3) export taxes on 68 mineral commodities

The first and the third are designed to prepare businesses for a full export ban on raw minerals in 2014, with the purpose of ensuring domestic supply and encouraging development of domestic downstream industry. These regulations, including divestment obligations which require certain levels of domestic ownership of mining ventures reduce the attractiveness of FDI in the Indonesian mining sector.

On top of that, issues related to mining in Indonesia are usually a cross-ministerial responsibility which involves the Ministry for Energy and Mineral Resources, the Ministry of Forestry and the Ministry for the Environment. This results in delays for permits and incurs substantial costs for investors and makes mining and energy investments in Indonesia less attractive. Additionally, the implementation of Regional Autonomy has further created confusion and reduced efficiency due to different regulations being applied in different regions. Inconsistent regional or local government regulations in Indonesia hinder investment and development opportunities.

Without specifically mentioning Indonesia, a study conducted by Baker & McKenzie Australia (2012) on Mining Investment found that foreign investors perceived Australia's Minerals Resource Rent Tax (MRRT)¹⁰ and Carbon Pricing Mechanism (CPM)¹¹ as discouraging investment in Australia. The concerns may originate from the fear of future government involvement and not merely of the financial impacts these taxes will cause.

Moreover, protective policies and regulations are still applied in the **services sectors** of both countries. For example Australian doctors will find it difficult to operate in Indonesia despite the country's high demand for world-class health treatment, as will Indonesian doctors who would like to gain experience in Australia. Not limited to doctors, other professional services also deal with the same problems that hinder cooperation in this sector creating hurdles for transfer of knowledge, technology and best practices. Common understanding on what are considered acceptable qualifications for workers between Indonesia and Australia is also needed – as Australia's definition of "skilled" workers is based on possessing a recognised qualification.

⁹ The Indonesian government plans to divert *halal* certification to another body, which will influence the Halal Certification Procedures.

¹⁰ From July 1, 2012 the MRRT applies to certain profits from iron ore and coal extracted in Australia.

¹¹ Also on the same date, the CPM commenced which requires around 300 companies to acquire and surrender "eligible emissions units" (carbon units and certain other carbon permits and credits).

RECOMMENDATIONS

- Promote transparent and seamless regulatory processes based on international standards with a better application of the rule of law and a well-resourced and independent regulatory structure, to further improve the investment and trading environment.
- Centralisation of approvals for the exploitation of natural resources in Indonesia by the national government or competent regional authority using consistent and transparent decision criteria.
- Establish a joint industry/Australian government/Indonesian government monitoring and consultation mechanism regarding new or enhanced food regulations.

Technical barriers to trade

Technical barriers to trade, such as SPS¹² measures, mandatory registration requirements, or certifications, applied in Indonesia and Australia often hinder trade and investments. In the **agriculture and agribusiness** sector excessive food labelling requirements often require exporters to reveal propriety information, leading them to discontinue exports to Indonesia. In Indonesia *halal* standards are mandatory for all processed and unprocessed food. In this context special regard is given to animal based food preservatives. *Halal* standards applied in Indonesia are complex and difficult to understand however taking the time to understand and comply with these regulations will potentially pay off for food exporters given that an estimated 88% of Indonesia's total population of around 240 million people are Muslim. Indonesia also enjoys good export relations with other nations in the region with large Muslim populations.

According to stakeholders, both Indonesia and Australia have complicated standards and certifications processes which limit the free movement of products. For exporters, obtaining Indonesian National Standards (SNI), ML registration numbers from the Indonesian Food and Drug Monitoring Body (BPOM), and permits and licenses from the Ministry of Trade are essential to trade in Indonesia. By imposing SNI standards, the government claims to protect Indonesian consumers. Through this policy, the government is able to control the quality of imported products which enter the Indonesian domestic market. Guidelines and standards on SNI are set by the BSN (National Standards Body) and certificates are issued by certified bodies after audits are satisfactorily completed. Each certification body focuses on a specific range of products.

In Australia, high SPS¹³ standards and quarantine requirements are not readily understood or complied with by Indonesian producers due to both capacity issues and costing pressures. For Indonesian producers, the US and EU markets are considered more sizeable and attractive, making efforts to meet required US and EU standards worthwhile, compared to what they see as a small market in Australia by comparison. However, Indonesian businesses are baffled that these standards are often not recognised by Australian authorities. Many are unconvinced that the extra efforts and costs required to meet Australian SPS measures are commercially feasible.

Related to trade in manufactured goods, quarantine mechanisms were raised by stakeholders. Quarantine agencies need to collaborate in order to avoid double quarantine processes. For example, the Indonesian government requires imported cotton plants to be quarantined to

¹² Sanitary and Phytosanitary.

¹³ SPS measures are applied to protect human, animal and plant life or health from risks arising from the introduction and spread of pests and diseases and from risks arising from additives, toxins and contaminants in foods and foodstuff.

prevent spread of disease. Similarly, the Australian government requires quarantining of cotton plants prior to export. This is seen as inefficient and hampers the supply of cotton. Quarantine mechanisms must protect the unique environments of both countries and be based on scientific rigour and risk-based analysis. However, it should not impede otherwise justified trade flows that may lead to inefficiency and higher production costs.

In wood manufacturing, stakeholders have expressed their expectation that Australia will also acknowledge the Indonesian SVLK (Timber Legality Verification System) standard of verified timber and timber products which has been established in order to comply with the European Union's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. Indonesian exporters are concerned about the Australian *Illegal Logging Prohibition Bill*, as it may add complexity and cost to comply with the standards applied for exports to Australia. Indonesian suppliers would like Australia to adopt the SVLK and not a vested interest promoted scheme such as the voluntary Forestry Stewardship Council which would require additional certification, and additional costs, by Indonesian exporters. Programs such as that of the Forestry Stewardship Council are valuable but use of such schemes should be a commercial decision made by forest owners and not mandated within the IA-CEPA.

In services, there are also challenges for both Indonesian and Australian professional service providers to operate in the other's country. In health services, foreign surgeons are restricted from operating in Indonesia, other than as consultants. Meanwhile, Indonesian nurses have found it difficult to work in Australia as their Indonesian certificates are not acknowledged in Australia. In legal services, the current Indonesian law stipulates that only lawyers with a degree from an Indonesian law school and Indonesian citizenship have a right to practise Indonesian domestic law or establish law offices. Australia has also applied standards of admissions, such as the requirement for foreign lawyers to undertake training or legal studies in Australia to be admitted to practise in the country. Similar needs for mutual recognition of qualifications and certifications exist in other professional services sectors, like accounting.

The availability of qualified workers cannot be separated from education, and different accreditation systems in the two countries are an impediment in this regard. Additionally different standards of education curricula and teacher competencies also hinder education cooperation between two countries. The Dutch colonial system has influenced Indonesia's national education system which is divided into preschool for ages three to six; primary school from six to 12; middle school from 12 to 15; high school from 15 to 18; and post-secondary or tertiary education (college or university). In Australia, although there are slight differences depending on the state or territory, in general it is comprised of primary school, high school and university.

The Indonesian National Accreditation Agency for Higher Education (*Badan Akreditasi Nasional Perguruan Tinggi*) was established in 1994 and began its program of disseminating its new accreditation system in 2008 and 2009 for undergraduate programs. The 7 point quality assurance system is modelled on the European Foundation of Quality Management and Malcolm Balridge's Model.

Source: <http://www.gbgindonesia.com/>

RECOMMENDATIONS

- Technical requirements and import procedures should be in accordance with international best practise, be transparent and not act as non-tariff barriers to trade.
- Establish greater exchange of information on standards and certification applied in both countries.
- Harmonise acceptable health, safety and quality standards across the partner economies.
- Develop and implement clear and certain *halal* certification standards.
- Australia should consider not only technical assistance at a scientific level but also deeper engagement by actual primary producers to assist in the development of Indonesia's agricultural industries to meet the standards required for entry to the Australian market.
- Accept SVLK (the Indonesian Timber Legality Verification System) as the certification system for IA-CEPA with regard to forestry products.
- Quarantine agencies need to collaborate in order to avoid double quarantine processes.
- Removal of restrictive standards on goods imports that are not related to health and safety.

Trade restrictions such as import quotas and licensing

Other than tariffs and cumbersome regulations and complex procedures, there are also additional trade restrictions such as import quotas and limited licensing that hinder further development on trade cooperation. **In agriculture and agribusiness**, Indonesia imposes import quotas on beef and live cattle import requirements for breeding cattle which are meant to protect domestic producers as part of a long-term plan to promote beef self-sufficiency by 2014. However, these regulations create a shortage of beef to the market and cause price increases. Furthermore, some goods, such as rice and sugar amongst others are subject to exclusive or special import licences as mentioned in the previous section. There are also export restrictions to favour domestic downstream industries, e.g. cocoa beans which are subject to progressive export tariffs.

In the mining and energy sectors, the Indonesian government recently imposed a ban on exports of raw minerals, in an effort to secure domestic supply and boost development of domestic downstream industry. The 2009 Indonesian Mining Law stipulated a complete export ban of unprocessed mining commodities by the year 2014, with progressive steps being taken now to reduce large-scale exports that are perceived as a threat to the country's energy security. Also, current laws require that mining services must be provided by Indonesian companies where available. Foreign mining services companies may only operate under special conditions where national providers are considered to be unable to provide the necessary services.

In manufacturing, some goods, such as plastics, medicines, alcohol and lubricants amongst others are subject to restrictions such as special licences and/or limited import volumes to Indonesia. The government issues these policies in order to protect up-stream industry and also consumers from low quality hazardous materials. Evaluation of these policies has taken place based on discussions with upstream and downstream industry. If restrictions and special licences continue to be applied it will be difficult for Australia to obtain certain raw materials from Indonesia, for example restrictions on wood exports by Indonesian government to favour Indonesian downstream industries in manufacturing.

Restrictions can also be found in Australia where the government applies strict regulations on pharmaceutical and botanical products which represent an impediment to Indonesian herbal medicine companies requiring supplies from Australia.

Still related to manufacturing, Australian business has called for anti-dumping measures for paper products to protect local industry.

In the services sector, protective regulations exist particularly in regard to the provision of professional services in Indonesia. Very tight entry controls and restrictions on business operations are considered discriminatory in professional services in Indonesia, and cover accountants, lawyers, architects, engineers, banking and healthcare professionals. Under current Indonesian regulations commercial presence of foreign services providers is not permitted without engaging local partners. In Indonesia, foreign lawyers may not exceed 20% of the proportion of lawyers in a firm and no more than five foreign lawyers per firm are allowed.

RECOMMENDATIONS

- Establish greater exchange of information on standards and certification.
- Remove all barriers to entry to create a duty-free quota-free two-way access for food products and agricultural products.
- Remove all export restrictions.
- Establish an approach of using import declarations that a product is being imported at valid economic costs to reduce vexatious claims such as “dumping” and trigger a chain of responsibility approach to false claims.
- Remove caps on import permits.
- Remove restrictive standards on goods imports that are not related to health and safety.
- Remove all barriers to professional practice and establishment of service businesses.
- Establish more flexible arrangements on commercial presence of foreign services providers.

Barriers to the movement of natural persons

Movement of natural persons (MNP) is considered a key element of a comprehensive partnership agreement to develop fairer – not limited to freer – movement of skilled people. MNP issues are currently predominantly related to obtaining two-way visas/work permits and length of stay. There are also barriers created by a lack of mutual recognition of qualifications which need to be overcome in IA-CEPA.

Skills shortages and/or labour shortages in certain industries and regions represent a serious impediment to economic growth and limit the ability to take advantage of opportunities into the future. Facilitating MNP is considered a key element of a comprehensive partnership agreement. Both Indonesia and Australia are in need of appropriate workforce participants with the full range of vocational skills, expertise and qualifications. Considering that 60% of Indonesia's population of 240 million people are under 39 years of age, this can potentially provide a dynamic workforce to fill demand created by a growing aging population in countries such as Australia. Given the complementary demographics and skill sets of Australia and Indonesia, bilateral cooperation on facilitating MNP could provide mutual benefits.

There needs to be more transparent and expeditious arrangements for visas and work permits, especially working visas for entering Australia and KITAS¹⁴ (limited stay permit cards) for Australian professionals and technicians. Delays in visa processing and difficulties in obtaining relevant forms and documentation are an impediment to freer movement of people. Stakeholders also express that there is an unnecessarily high level of English competency required for Indonesian migrant workers (semi-skilled labour) to enter the Australian market under 457 visas.

In the **agriculture and agribusiness** sectors, problems often arise because of the difficulties in bringing in foreign experts in agriculture (due to cumbersome immigration and permit processes) from Australia to Indonesia, as well as semi-skilled labour from Indonesia to Australia. The same problem exists in the **mining and energy** sectors where professionals, skilled and semi-skilled workers from both countries experience difficulties gaining access to work in the other country.

The IA-CEPA creates an opportunity for the development of a new visa category with characteristics that can be drawn from existing Australian visa schemes such as the Pacific Seasonal Worker Scheme¹⁵ (providing seasonal employment) and the Enterprise Migration Agreements¹⁶ (providing project-based temporary employment). IA-CEPA should include a relaxed and novel visa scheme which allows Indonesians and Australian skilled workers to easily move across the border as envisaged in the ASEAN Economic Community. With a more relaxed visa scheme Indonesians will benefit from on-the-job experience (such as internships and secondments) to improve their English language and professional skills before returning to Indonesia to further contribute to economic development. Similarly Australians could benefit from in-market experience in Indonesia and Indonesian language skills.

Aside from that, limitations on the movement of natural persons are acutely felt in the services sector including specialist services as well as sub-sectors with lower skill requirements (but strong labour demand) in the fields of tourism, hospitality, and front line customer service roles. For example, in Indonesia, restrictions exist on the temporary entry of banking staff and the requirement that work permits for foreign bank personnel be approved by Indonesia's Central Bank. Similar restrictions apply to foreign physicians and surgeons operating in Indonesia. In general terms, the employment of foreign workers is highly regulated and controlled by the Ministry of Manpower and Transmigration in Indonesia, which issues permits to employ foreign workers.

On the other hand, Indonesian nurses find it challenging to practise in Australia because of the requirements that must be met. In order to obtain nursing registration, foreign nurses are required to obtain a relatively high IELTS test result (a score of 7.0 out of 9), in addition to other

¹⁴ KITAS: Kartu Izin Tinggal Terbatas (Limited Stay Permit Card)

¹⁵ The Seasonal Worker Program commenced on 1 July 2012, building on the Pacific Seasonal Worker Pilot Scheme in contributing to the economic development of participating countries, while also offering Australian employers in the horticulture industry access to workers from eight Pacific island nations and East Timor when they cannot find enough local labour to satisfy seasonal demand. (DEEWR – Australia)

¹⁶ EMAs are a custom-designed, project-wide migration arrangement suited to the resource sector. EMAs ensure that skill shortages do not create constraints on major projects and jeopardise Australian jobs. EMAs help major resource projects to access labour from outside of Australia to cover genuine skill vacancies that cannot be filled from within the Australian labour market. (Department of Immigration – Australia)

requirements such as sponsorship or residence visa, as well as undergoing a medical examination.

Limiting movements of natural persons is often conducted to protect a country's domestic labour market. Yet in practice, this limits the transfer of knowledge, and slows the development of human resources. Reasonable restrictions and limitations will need to form part of this policy for ensuring security and integrity of the policy, however free and fair movement of skilled persons should be the ultimate goal. Industries in Indonesia and Australia will have easier access to the human resources they seek if movements of natural persons are less regulated. Lowering barriers on the free and fair movement of people will also allow workers to seek opportunities they consider most suitable to their abilities and future plans.

Freer movement of business people is also crucial as it supports the way they conduct and mobilise their business, intensify investment and further develop trade, investment and economic cooperation in the global market. Not much will be achieved without any support from the government regarding travel/business visa arrangements. For example, Indonesian business people still face difficulties obtaining travel/business visas for visits especially where time constraints are a factor. For Australians, apart from the visa application procedures through the Indonesian embassy or consulates in Australia, Visa-on-Arrival is available at specified ports and airports which makes travel to Indonesia easier.

RECOMMENDATIONS

- Mutual recognition of qualifications and certification by both countries to facilitate trade in services and movement of skilled workers.
- Adjust the definition of "skilled" in reference to the IA-CEPA to recognise that skilled workers can possess vocational skills without formal qualifications.
- Australia also points to the importance of Indonesia's skills training agenda to significantly increase capacity in education through expanding and developing its Vocational High Schools (SMKs) and polytechnic network, including more polytechnic lecturers, building competency standards, industry engagement, VET quality, international VET partnerships and staff exchange and creating centres of excellence in each of the Indonesia's six economic corridors.
- Promote education cooperation, which includes standards on education curricula and teacher competencies.
- Encourage freer movement of skilled people between the two countries. Encourage employment of skilled Indonesians and Australians in both countries.
- Encourage alternative solutions for short term migrant workers with a limited English proficiency, for example by providing "forepersons with a high level of English supervising work groups" similar to a system which operates in New Zealand for fruit pickers and packers.
- Remove two-way barriers for the movement of skilled workers in the following areas:
 - production agriculture, science, food processing and supply chain logistics.
 - the agricultural sector to allow for training and working in both economies to facilitate skills development and transfer.

- standard setting, certification and assessment.
- mining, energy, engineering and environmental management personnel.
- skills development, training and technology transfer in the mining, energy, engineering and environmental management fields.
- Mutual skills recognition, including developing training between professional associations or vocational schools and the possibility of establishing a joint committee or institution to facilitate initiatives in the field of education.
- Simplification of work permits for lecturers, teachers and researchers, and more relaxed visa provisions for students.
- Create a special visa category under IA-CEPA to facilitate service industry movement of people.
- Encourage more relaxed restrictions on the temporary entry of professionals in services and requirement for work permits.

Foreign direct investment restrictions

In Australia the Foreign Investment Review Board reviews foreign investment applications over the national threshold on a case by case basis which maximises the flow of investment and at the same time protects Australia's national interests. In Indonesia, the responsibility of managing foreign investment lies with the BKPM¹⁷ but is mostly regulated by sector ministries.

Both, Indonesia and Australia are in need of foreign investment. Growth in the two countries depends on high levels of investment, with the majority of investment from foreign sources. BKPM investment figures show that over the past decade, 70% of all investment in Indonesia has been from FDI, with that pattern expected to continue in the face of unprecedented demand for total investment across all sectors. Australia has similar investment patterns. Barriers to investments therefore are not beneficial to both countries and should be considered disadvantageous to Indonesian as well as Australian national interests.

Despite their geographic proximity, investment levels in Australia and Indonesia differ significantly. FDI in Australia in 2011 reached A\$507 billion¹⁸ while Indonesia's FDI was only US\$19.28 billion (approximately A\$18.55 billion)¹⁹. However, both countries have shown important improvements. According to the A.T Kearney FDI Confidence Index, Australia improved its rating from 7th in 2010 to 6th in 2012, while Indonesia made an even more significant improvement from 19th in 2010 to 9th in 2012.

Despite the relatively small differences in current FDI confidence rankings between Indonesia and Australia, the facts show that actual levels of investment differ considerably between the two countries. This means that although perceptions of foreign investors towards Indonesia have improved, in practice, the level of investment is still low. This may be caused by a number of impediments to investment in Indonesia.

Limits on foreign investments represent a major factor in reducing investment flows between the two countries. In **agriculture and agribusiness**, Indonesia applies a maximum 49% foreign

¹⁷ Indonesian Investment Coordination Board.

¹⁸ Austrade, May 2012.

¹⁹ BKPM, January 2012 (US\$1 = A\$0.961942).

ownership to farms where the main crops are corn, soy, peanuts, green beans, rice, cassava and sweet potato. In addition to that, foreign investment in plant culturing, nurseries, genetic agriculture and GMO products may be subject to limitations and must obtain a recommendation from the Indonesian Minister of Agriculture. This policy reflects how the Indonesian government, similar to the Australian government, is of the view that foreign investment in agriculture should support agricultural production, job creation, and contribute to the prosperity of rural communities and the broader economy.

FDI restrictions also hamper development in the **mining and energy** sectors. Investment uncertainty exists due to foreign ownership divestment regulations under the current Indonesian mining regime which has led to decreasing interest from foreign investors in Indonesia. Earlier this year, the Indonesian government issued Government Regulation No. 24/2012 which requires foreign mining companies who have already been in production for five years to divest their shares gradually to 51%. This policy was recently reinforced when the Indonesian government drafted a new negative investment list that proposes services companies in mining and energy be restricted to 100% Indonesian ownership.

In the services sector, commercial presence of foreign services providers in Indonesia is not permitted without engaging local partners. This applies to all business services including lawyers, accountants, architects and consultants. Further, legal barriers can be found in the Negative Investment List which limits FDI in a number of key sectors such as transportation, health and education, as well as foreign labour restrictions which impede growth in services sectors.

Many companies lack access to capital, and especially during the global economic slowdown it is difficult to rely solely on domestic investment sources. Business opportunities can be more easily seized if there is available capital to support a company's operational capacities. Both countries should support business to target and activate investments that create the most value for the economy – i.e. those that are able to generate employment and stimulate productivity.

It is reported that Australia currently has a pool of approximately A\$1.4 billion²⁰ available for investment, and Australians are hungry to invest abroad. There are opportunities for mutually beneficial economic cooperation where Indonesia becomes a significant investment destination for Australian funds. However, many restrictions and regulatory developments have caused Indonesia to lose market share for Australian investments, especially in the mining sector where Australian investments are significant.

Australia has a relatively free investment regime and this should be mirrored by Indonesia in the IA-CEPA so that the conditions for direct foreign investment are reciprocal.

RECOMMENDATIONS

- Remove two-way barriers to investment in land, production facilities such as feedlots, processing facilities such as abattoirs, flour mills, food processing and consumer good manufacturing, logistics, distribution and marketing chains.
- Remove all barriers to the establishment of investment in educational institutions (vocational and higher education) in the mining, energy, engineering and environmental management fields.

²⁰ Personal comment: James Bond, Australian Services Round Table

- Remove restrictions on establishment of investment in educational institutions and the delivery of education (vocational and higher education) for people involved in the complete food supply chain (paddock to plate).
- Remove all restrictions to investment in agriculture and the food production, distribution and marketing chain.
- Remove barriers to foreign investment and service provision from Australia.
- Remove two-way barriers to investment in land in consumer good manufacturing, logistics, distribution and marketing chains.
- Lift restrictions on foreign equity.
- Lift restrictions on service provision.
- Relaxation of Indonesia's FDI regulations is seen as key to knowledge and technology transfer in this sector.
- Remove two-way barriers to investment.
- Establish a more flexible arrangement on commercial presence of foreign services providers.
- Governments should encourage micro economic reform designed to improve the productivity and competitiveness of industry.

Key issues to be addressed to accelerate trade, investment and economic cooperation

While there are many sector-specific and cross-sectoral barriers restricting trade and investment between both countries, the IA-BPG has also identified a number of more subtle but important issues that directly or indirectly impede trade, investment and economic cooperation. These issues may hinder the many opportunities presented by a stronger economic relationship between Indonesia and Australia. The IA-BPG understands that many of these issues go beyond the capacity of the IA-CEPA alone, but it is of the opinion that there are prospects for the IA-CEPA to lay the foundations for economic cooperation to overcome these issues.

Lack of communication and exchange of information leading to market failure

Business practitioners from both countries have expressed a need for greater communication and information exchange regarding the available business opportunities in each country. Reliable information is an important element of business decision making, and uninformed parties are unlikely to be willing to invest in a new market.

Readily available information on consumer preferences, import-export conditions and requirements, as well as government policies and regulations would enable businesses to come up with the right strategies to meet consumer demands. This lack of information is a major hindrance to the increase of trade and investment cooperation. While a significant business relationship already exists between the two countries, business stakeholders feel that there is little in the way of organised and systematic business forums facilitated by government with the involvement of business associations. Such measures would further stimulate the interest of Indonesian businesses to enter the Australian market and vice versa.

On sectoral issues, the Australian mining and energy business community is of the opinion that there is lack of quality data on petroleum and gas deposits which is a major factor in attracting new exploration activities. This industry is currently facing the challenge of preserving data and making it more accessible using online applications. As for the services providers in these sectors, stakeholders from both countries stressed the need for greater information regarding the opportunities for trade and investment in each market in order to maximise the economic benefits which potentially exist for both Australia and Indonesia.

There is a perception among Indonesian businesses that Australia is a relatively small market and difficult to penetrate due to the application of high SPS and quality standards. Furthermore, Australia is believed to have closer and preferred trade relations with Commonwealth countries such as Singapore and Malaysia. Australia is viewed as a market limited for 'premium' products and commodities with consumers having high purchasing power.

This lack of communication and information exchange also affects investment flows between both countries. Australian investors have expressed the need to be informed of the opportunities for investment and of the regulatory environment which exists through sector/group discussion sessions, seminars and tailored publications.

RECOMMENDATIONS

- Develop accessible and transparent information about regulations or standards required for market entry and how these can be met.
- Establish greater information exchange for all Indonesian and Australian business people.
- Establish a national virtual geoscience library, which allows searching and downloading of data using web browsers and bringing data under one globally-accessible national database, which saves time and resources.
- Develop accessible and transparent information about regulations or standards required for market entry.
- Investors in Australia and Indonesia need to be made aware of the direct business benefits and indirect regional benefits of investing to drive greater investment relations.
- Establish an amalgam of national, regional and local government initiatives to provide market information and encourage market access coupled with private sector contact.
- Improve two-way cultural understanding and respect for local practices as well as animal welfare to increase the capacity to produce quality economical consumer goods.

Financing and access to capital

As discussed above, both Indonesia and Australia rely heavily on foreign investment. Growth levels in both countries depend on high levels of investment, with the majority of investment coming from foreign sources. In Australia the Foreign Investment Review Board reviews foreign investment applications on a case by case basis which maximises the flow of investment and at the same time protects Australia's national interests. In Indonesia, the responsibility for managing foreign investment lies with the Indonesia Investment Coordination Board (BKPM). BKPM investment figures show that over the past decade, 70% of all investment in Indonesia consisted of FDI.

Australia has similar investment patterns. Barriers to investment therefore are not beneficial to both countries and should be considered disadvantageous to Indonesian as well as Australian national interests.

Indonesia needs foreign and private financing. Commercial banks in Indonesia are generally unable to provide long-term loans as unable to provide long-term loans as large shares of their deposits have short maturity. Banking is operating well below the normal base for this size of economy. Bank deposits and credit, and the country's asset base as a whole, are very low as a share of GDP compared with pre-1997 levels and compared with other countries²¹. As a result, Indonesian companies need foreign and private financing. For the same reason, Indonesian banks are deemed incapable of financing the large infrastructure development that is needed in Indonesia.

Public Private Partnership (PPP) projects exist but have yet to succeed in securing infrastructure development. Legislation, regulations, and institutional changes are still required to attract the private sector in financing infrastructure investments. Until now, project investments have been viewed by the private sector as too risky and uneconomic. A lack of funds and investments hampers infrastructure development and has cross-sectoral implications. There must be solutions or mechanisms for long-term financing in the IA-CEPA.

Indonesia's economy, similar to Australia's, is significantly comprised of SMEs. SMEs are the biggest contributors to GDP growth. They account for more than 90% of Indonesian firms across all sectors and provide jobs for more than 90% of the workforce²². A major issue for SMEs in Indonesia is the lack of necessary investment and funding to scale up their businesses. Investments are also necessary to provide funding for the development of innovations in SMEs. A lack of financial resources and difficulty accessing finance are key factors that have hampered innovation in SMEs.

Improving access to capital will improve overall supplies of goods and services and help to meet demand; not only in Indonesia and Australia but also in other countries.

Infrastructure and logistics

Briefly mentioned previously, infrastructure development has cross-sectoral implications. Poor conditions of roads increase costs for transporting goods and contribute to food insecurity through product spoilage during transport. Power shortages reduce production capacities, and lack of access to clean water often becomes a source of diseases. Infrastructure encourages business innovations and improves a country's global competitiveness.

Logistics is a vital element for economic performance. In Indonesia, logistics, transportation infrastructure, and transportation services are high priority and especially challenging issues. Indonesia's geography and the distribution of industry and resources pose a major challenge for efficient and low-cost logistics. Approximately 60% of the population of about 240 million people live on Java while the remaining 40% are distributed among 6,000 inhabited islands; many of which are very sparsely populated. Manufacturing is also centred in Java, while natural resources production is widely spread over the archipelago.

²¹ Chatham House, *The Challenges and Opportunities for Financial Services in Indonesia*, July 2010.

²² Ministry of Cooperatives and SMEs and the Indonesian Bureau of Statistics.

According to an AusAID finance study carried out by the Asia Foundation and Regional Autonomy Watch (an Indonesian civil organization also known as KPOD) published in 2011, poor infrastructure is deemed to be the main constraint to business performance. The IA-BPG agrees. Since the decentralisation era, it has become more complex for the central government to implement its plans. Agreements for infrastructure developments must be obtained from district/regency level governments which often have their own commitments and plans for areas under their jurisdiction.

Surveyed businesses conclude that telephone and electricity facilities are relatively satisfactory, but roads and water supply are considered poor by over 40% of business operators. The study further elaborates that businesses in Jambi, West Kalimantan, Central Kalimantan and Papua often have to wait more than 100 days for roads to be repaired.

However, infrastructure development in general has been hampered by the global economic slowdown. This is a problem faced even by Australia. According to a paper by the Infrastructure Finance Working Group (IFWG) in 2011, “there is a widespread and ongoing concern that Australia’s rate of investment in its physical infrastructure is not keeping pace with the demand.” The need for infrastructure development in Australia over the next decade is predicted to be between A\$450 billion and A\$770 billion.

Indonesia is facing similar constraints. MP3EI estimates necessary infrastructure investment out to 2025 at US\$207 billion. This is likely to be quite conservative, with BKPM now citing a much higher figure. About two thirds of the cost will need to be financed through foreign investments.

Domestic and international transport hubs are focused on Jakarta, on the island of Java, creating major challenges for inter-island connectivity and development. Many of the inter-island connections are conducted through small commercial and non-commercial ports and hundreds of small domestic airports. Similarly, the road quality in Indonesia is uneven. Some roads at the national or provincial level, especially on Java, are of high quality. However roads at the regency level, for instance in the eastern islands, are inadequate. In 2009, Indonesia ranked 94th out of 134 countries in the availability of road infrastructure according to the Global Competitiveness Index. Indonesia also lags behind most of its ASEAN counterparts in the availability of roads on the basis of both area and population.

The power sector in Indonesia is a monopoly market with the National Electricity Company known as PLN as the sole supplier of electricity to the public. Despite the fact that some private electricity providers exist, they are usually only able to sell the electricity to the public through PLN. Blackouts often occur especially in the islands outside the Java-Bali systems. Blackouts in Maluku, West Nusa Tenggara, West Kalimantan, and West Sulawesi occur on average between five and seven times per week.

Last year, Indonesia announced its economic development plan popularly known as the Master Plan for the Acceleration and Expansion of the Indonesian Economy (MP3EI) which classifies Indonesia into six economic corridors. In theory, the implementation of the MP3EI should lead to the development of new infrastructure. Nevertheless, the central government often does not receive approval from district administrations in implementing its plans. Since the autonomy law was passed in 2002, the influences of central and provincial governments towards district governments have been significantly diminished. Poor connectivity in Indonesia is causing high transportation costs and high cost differentials between regions. For instance, the World Bank

reported that the cost of shipping a 40ft container from Padang to Jakarta is more than three times that of Singapore to Jakarta – despite the fact that Padang is geographically closer to Jakarta than Singapore. Hence, regions with underdeveloped infrastructure, such as the eastern part of Indonesia, cannot realise their full potential. Connectivity and transport efficiency must be improved for the establishment of cross-border value chains between Indonesia and Australia.

As well as the bilateral trade opportunities, the IA-BPG has identified a potentially valuable approach to improved time-to-market through the development of Indonesian ports and the manufacturing sector to target mutual western interests. Assuming we could develop mutually beneficial manufacturing business models, efficient ports in Indonesia potentially provide new shipping access to the Indian Ocean which could bypass the Malacca Straits. If this could be done, then we could improve shipping times to the Indian Ocean Rim markets (including Africa, India and the Middle East) and to Europe by many days which would reduce costs for exporters and also reduce greenhouse gas emissions from international sea freight operations. Such an approach would be mutually beneficial in opening up access to global supply chains for businesses in both of our nations.

Fostering small and medium enterprises

SMEs are often threatened by concessional cross-border trade agreements as they see new competitors enter the market. This view was repeatedly expressed by Indonesian stakeholders during consultations, indicating a lack of belief on the part of Indonesian SMEs in the benefits of trade liberalisation. Similar concerns also arise among Australian SMEs fearing unfair competition from developing countries with more lax labour and tax regulations and standards enabling them to produce at lower costs.

Hence, there should be scope to focus specifically on the SME sector within IA-CEPA. The IA-CEPA should include provisions for continuous engagement with SMEs from both countries to ensure broad approval and buy-in. SMEs should be involved and informed of opportunities that may arise from liberalised trade, providing encouragement to move from a strictly domestic focus to engagement in global supply chains.

This is important since in many cases, notably in the agricultural and manufacturing sectors, SMEs will constitute critical parts of the value chain. The majority of agricultural producers in Indonesia are smallholding farmers, SMEs and/or cooperatives. In the manufacturing sector, including but not limited to agro-food, wood working, textiles and metal working, SMEs are often suppliers and sub-contractors to larger companies. Related to the previous section, development of SMEs cannot be separated from the development of infrastructure. Currently, 75% of Indonesia's SMEs are based on the island of Java with the rest scattered around the other islands. By 2014, the government aims to increase the number of SMEs outside Java to 40% with 60% on Java.

The Indonesian Ministry of Industry and Trade has pointed out that direct foreign investment in the eastern part of Indonesia, which is geographically closer to Australia, has great potential in the areas of jewellery and handicrafts manufacture, and fish processing. The highlighted areas include Bintuni (Papua), Pomalaa (South Sulawesi) and Batu Licin (South Kalimantan).

Businesses, especially SMEs, have reported difficulties obtaining information on market opportunities required to build sound business strategies and planning. Indonesian regulatory



frameworks do not sufficiently differentiate between SMEs and larger enterprises. "Sunk costs" to open a business in Indonesia are too high across the board for SMEs and red tape and lengthy establishment procedures result in some businesses commencing operations in competitor countries such as Malaysia.

Import licensing procedures in Indonesia are complicated and often inefficient, such as those arising from a simple change of address of an SME. While in Australia the quarantine system applied creates higher initial costs and risks to Indonesian exporters, especially SMEs, which discourages more trade to Australia

Other subjects for discussion in the IA-CEPA

The following subjects have been raised by a number of stakeholders during the consultation process. The IA-BPG believes that further discussions on these subjects may be required and developed in more detail by an expert committee as the IA-CEPA negotiations take place.

Government procurement

Government procurement processes should be transparent and non-discriminative. The government of Indonesia could consider granting fair and equitable access to its government procurement market to Australian businesses that establish cross-border integrated supply chains with Indonesian companies and vice-versa.

Government procurement should promote transparency, value for money, open and effective competition, fair dealing, accountability and due process, and be non-discriminative in its decision making. Opportunities for increased cooperation and issues which can be addressed in discussions on the nature and scope of any provisions could include:

- Consultation mechanisms
- Suppliers' rights
- Principles of non-discrimination and their application
- Coverage of any agreement
- Minimum procedure requirements in respect of procurement processes.

Given that government procurement did not feature under the AANZFTA, the IA-CEPA may prove an appropriate context in which to develop bilateral disciplines in this area.

Rules of origin

In order to exclude non-parties from the agreement it is necessary to establish a system of determining the origin of goods in order to apply the correct tariff concessions. The IA-BPG supports the system used within AANZFTA including the use of certificates of origin as a verification system.

As Indonesia and Australia are already partners in AANZFTA, and as one agreement does not supersede the other, there is good reason for government and business to remain consistent with the AANZFTA approach. This is preferable to establishing another system under the IA-CEPA which would potentially create confusion and variation for business and the customs service.

However, IA-BPG is supportive of the application of a risk-based approach to customs' acceptance of certificates of origin. That is, provided both nations have confidence in the system, customs offices need only review a statistically relevant number of the certificates to ensure scheme integrity according to a risk profile of the goods in question.

Such an approach would be beneficial to business as it would decrease the time taken to complete the border crossing and so reduce costs.

Dispute settlement mechanism

To further enhance cooperation in trade and investment, it is imperative to establish fair, transparent, timely and effective procedures to facilitate settlement of commercial disputes, especially in Indonesia as judicial processes are perceived as being more prone to corruption. Both Indonesia and Australia see the importance of setting up dispute resolution mechanisms that are efficient and enforceable.

At present, there are two major legal deterrents to foreign investment in Indonesia, namely inefficiency in the court system and corruption. The uncertainty of legal protection in Indonesia is experienced not only by foreign investors in the country, but also by Indonesian businesses. There is a clear need for a simple and direct mechanism to resolve disputes.

There is an agreed dispute settlement mechanism within AANZFTA and the IA-CEPA should not vary from this. However there may be advantages in expanding the settlement of disputes by mediation, which may provide a more cost and time efficient alternative to litigation, and this should be considered for inclusion under the provisions of the IA-CEPA.

Resource exploitation is large scale and long term and this inevitably leads to disputes between investors, market participants and regulatory bodies. The sector relies upon predictable, cost effective and timely dispute settlement regimes. Court systems in Indonesia lack the confidence of investors and there is a need for the full range of dispute settlement mechanisms that are cost efficient, faster and more effective than litigation.

Similarly investors need certainty that they will not have their investment appropriated by government actions. Investors need the capacity to defend their financial interests and exclusive enjoyment of their investments. Thus they require the ability to take direct, efficient and enforceable dispute resolution actions. If investors are exposed to unacceptable sovereign risk then investment will be curtailed and development will not occur at the potential level.

As well as established arbitration mechanisms, a mechanism for settlement of disputes by mediation, which may provide a more cost and time efficient alternative to litigation should be considered for inclusion under the provisions of the IA-CEPA. Mediation may offer several advantages in the context of IA-CEPA, for example:

- Mediations can be arranged, prepared and conducted to a conclusion in days or weeks, not months or years as in the case of adversarial proceedings. As a non-legal process, mediation is capable of crossing borders and does not have the legal and jurisdictional constraints inherent in adversarial proceedings.
- The procedure is adaptable to fundamental tenets of Indonesian culture such as *“musyawarah”* – the tradition of amicable discussion and consensus among Indonesian people.
- Mediation can be used as an adjunct to any dispute resolution process at any stage of any dispute. There can be multiple mediations within the one major dispute or mediation of part only of any dispute.
- Even where mediation doesn't achieve a final result it can achieve a significant narrowing or shortening of the dispute.

- Because the parties control the process and reach their own agreement mediation is generally perceived to be fair.

The IA-CEPA should include investor state dispute resolution provisions in order to provide enforcement mechanisms in the event that governments interfere with the commercial returns of investors on other than just terms. Companies are best placed to pursue their commercial interests and they need to have access to the full suite of dispute resolution mechanisms.

Protection of intellectual property rights

Protection and enforcement of intellectual property rights (IPR) are essential for safeguarding innovation and creativity and sustaining economic development in the information age. Despite being a signatory to numerous IPR protection agreements, concerns remain regarding the protection of IPR in Indonesia. There are still rampant infringements of IPR in the field, including piracy, pharmaceutical patent infringement, apparel trademark counterfeiting and an inconsistent enforcement regime.

This situation significantly discourages investment flows from foreign firms and limits access for Indonesian businesses to research and technology which is lacking. The IA-CEPA could strengthen protection in this area by establishing a sound framework for capacity building, including raising awareness on the importance of IPR protection for economic development.

The capacity of SMEs to manage IPR is also a key area of concern. SMEs are reportedly not prepared to maximise the economic benefits of IPR, such as protecting, selling and licensing rights. The IA-CEPA should include frameworks for capacity building on managing IPR as a way to boost innovation among SMEs.

Australia and Indonesia are signatories to the WTO TRIPs agreement. As piracy and counterfeiting are still major problems in Indonesia, there is a need for capacity development to enforce IPR protection for investors and manufacturers in order to gain greater investor confidence. IPR protection is needed across all forms of intellectual property which include copyright and related rights, trademarks, geographical indications, industrial designs, patents, integrated circuit layout-designs and undisclosed information.²³

Competition policy

The ongoing implementation of competition policy is a vital component of reforms to the Indonesian economy that are necessary to attract investment and underpin economic growth.

Government policy and legislation to ensure competitive practices and independent rivalry in the market can provide significant benefits to consumers and encourage investment and economic growth. Benefits may include better prices and variety of products for consumers, protection for businesses from corrupt, unfair or anti-competitive practices, better quality products through increased research, development and innovation, increased product safety and truthfulness in product claims.

There are opportunities for capacity building within agencies involved in market design and competition regulation, and for access to high level Australian services capabilities in these fields. Capacity building and knowledge exchange can take place between the competition

²³ http://www.wto.org/english/tratop_e/trips_e/tripfq_e.htm

authorities of both countries, that is the ACCC²⁴ and the KPPU²⁵, to assist in prevention of anti-competitive practices and the detection and prosecution of conduct which breaches competition laws.

Cross cutting measures to overcome impediments

During the development of this paper, the IA-BPG partners noticed a number of common themes which if considered appropriately, could address concerns and opportunities for multiple sectors through cross cutting actions or initiatives.

For example, liberalised investment regimes impact on all areas where investment may take place and is not limited to individual sectors. Similarly the ability for people to move between and across our two economies enables participation in education for skills development, technology transfer and an increased workforce to take advantage of the increased economic activity which will flow from the IA-CEPA.

Removing barriers for capital thresholds or the ability to practise in each country means that there will be improved opportunities for SME's and greater development of the service economy.

The actions the IA-BPG has identified in line with this cross cutting theme include:

1. Reducing all tariffs to zero for all tariff lines on entry into force.
2. Removing all product quotas on entry into force.
3. Removing all capital thresholds for business start ups.
4. Removing all limits to equity holdings in all businesses by nationals or companies from the IA-CEPA partners provided this meets the national interest test as overseen by the foreign investment review board or equivalent against a transparent criterion.
5. Allowing full and free movement of skilled people across our common border.
6. Providing mutual recognition of educational and skill levels against international standards.
7. Encouraging improved mutual cultural and linguistic understanding through compulsory inclusion in school curriculums.
8. Tailoring development assistance to facilitate the above list and provide the capacity for Indonesia to implement rapid economic development.
9. To the extent possible, measures should be aimed at mutual cooperation and collaboration to access global supply chains and service provision.

²⁴ ACCC – Australian Competition and Consumer Commission

²⁵ KPPU – Komisi Pengawas Persaingan Usaha

Strategic models for partnership

There are opportunities for Indonesia as well as Australia arising from the IA-CEPA. The IA-BPG believes that a number of areas offer the greatest opportunities, which can be built on by the IA-CEPA. These areas could potentially become models of economic partnership, upon which the economic relationship between Indonesia and Australia can be built and expanded. A permanent IA-BPG should therefore be established to comprehensively discuss how to best realise these opportunities.

Opportunities for securing domestic food availability and participation in global food supply

Food security is an important issue in Indonesia and the Indonesian government often aims to tackle the issue through food self-sufficiency policies. However, food security is not synonymous with food self-sufficiency. There needs to be a new paradigm where the key to food security is sustainability of supply and increased productivity. In this context, Australia and Indonesia are well placed to form a partnership to secure food availability through trade, two-way investments and economic partnerships and the development of integrated, reliable supply chains.

A cross-border value chain will help the agribusiness sectors from both countries to increase their production capacities, and supply internal market demands as well as reap opportunities from participating in the global supply of food. Businesses point out that cross-border value chains already exist between Indonesia and Australia. Australia has been providing Indonesia with exports such as wheat, dairy and beef products, while Indonesia has provided Australia with cocoa, coffee and vegetable oil products. These examples should provide the starting point for a deeper cooperation to secure food supplies.

Cross-border value chains and economic cooperation imply the facilitation of two-way investment in agriculture and agribusiness. Both countries present great opportunities in this sector. Australia represents an ideal investment for livestock and raw or fresh food products, such as cattle, lamb, wheat, rice, fish, soybeans and livestock feed. There are also opportunities for investing in Indonesia taking into account its supply of affordable labour and dense population centres. This may apply to a range of industries and supply chain processing such as abattoirs and cattle breeding and raising, fish processing, and food manufacture such as tofu, noodles and pasta, etc.

Comprehensive partnership in the agricultural and agro-food sectors also enables access to new markets. As an example, Indonesia's more established and recognised *halal* brand can enhance penetration of Australian products to Islamic markets when processed in Indonesia. Meanwhile, Indonesia can increase the standards and quality of its food products by learning from Australia thus opening up the Australian market and other global markets as well.

While Australia has certain natural competitive advantages in terms of production of agricultural products, it is difficult for Australia to compete globally in more highly processed

food products. However, Australia is capable of producing very high quality products suitable for the more affluent and demanding consumer.

For this reason, access to the Indonesian market by Australian producers of products such as rice and flour, present no threat to local producers. In fact the presence of high quality top end consumer products reduces the pressure on local supplies, thus increasing food supply, as well as fostering innovation through increased consumer choice and exposure to innovative products.

Opportunities for advanced education and human resources development

In a globalised market, a skilled workforce is key to competitiveness and productivity. A complementarity exists between Indonesia and Australia in the education and human resources sector which represents an area of great potential for both countries. There are excellent opportunities for cooperation between Indonesia and Australia to help build education and research sector performance and consequently Indonesian labour market performance. Australia's aging population represents a complementarity with Indonesia's growing workforce of young skilled professionals.

Indonesia's universities and TVET sectors are currently underperforming relative to the country's population and labour market needs. The sector needs major new investment. Education law reforms due soon will assist in opening the sector. Vocational education and training will support development through up skilling and training workers in priority areas for the economy; as well as upgrading universities through research and development and encouraging partnerships between Indonesian and foreign education providers in twinning, dual degree programs, campus and curriculum development.

Greater cooperation in education will also address Australia's shortage of skilled workers in sectors such as the automotive and engineering trades, construction trades, hospitality and healthcare. For example, if prepared with the proper language and medical skills, Indonesian nurses could become a source of healthcare professionals to fill the skills shortage in Australia. Indonesian health professionals who achieve qualifications in Australia are able to share that training and experience with their home institutions on their return to Indonesia.

The same scheme may also apply to internship programs between Indonesia and Australia, in which there are great opportunities for government facilitation and program improvements. A complementarity exists for provisions which encourage employers of young professionals to move them between countries for work experience, and medium term employment and for young professionals themselves to seek work where opportunities arise. Partnerships between Australian and Indonesian public and private academic institutions should be promoted so that the education and training services provided will support businesses in both countries.

In relation to clean technology, Indonesia can benefit from the transfer of skills in green economy practices for instance from the TAFE NSW Riverina Institute which provides training in green skills across industries and vocations.

To conclude, the benefits from developing broader opportunities in education and human resources go beyond economic development, and provide benefits in other areas such as more productive agricultural processes, improved health services and a greener economy.

Opportunities for improving health and quality of life

A greater level of partnership between Australia and Indonesia may also present opportunities in the health and health tourism sector which has shown significant growth over recent years. A perceived lack of quality in Indonesia's health sector results in annual imports of billions of dollars of health services via Indonesians travelling abroad for health care to countries such as Singapore, Malaysia and Australia. Last year the Ministry of Health reported that Indonesians spent US\$11.5 billion on foreign health care imports²⁶ representing over one-third of Indonesia's total services imports.²⁷

In response, Indonesia has started developing its own world-class hospitals such as the Siloam Hospital chain owned by the Lippo Group. It is hoped this will reduce levels of foreign health services imports. Indonesia's demand for world-class health care opens up new opportunities for foreign investment, including for Australian companies, in the Indonesian health sector. This may also lead to demand for foreign medical doctors to practise in Indonesia.

In Australia capacity issues revolve around a shortage of skilled health care professionals and an aging demographic which will see a higher demand for aged care support and associated health needs against a declining population of available skilled workers over time.

As mentioned in the previous section, Indonesian nurses represent a significant potential pool of skilled workers who, with the right training, are able to fill that demand. In so doing, cooperation between Indonesia and Australia will contribute to the supply of qualified healthcare professionals, and improved quality of health services.

Cooperation between Indonesia and Australia can provide solutions for overcoming existing barriers to greater medical tourism in both countries. Labour from Indonesia can fill the shortage of healthcare professionals in Australia. Investment and partnership to build world-class healthcare facilities in Indonesia can increase capacity to absorb domestic demand and potential demand from third-country markets looking for healthcare services in Indonesia.

Apart from direct health care, quality of life is also related to the increased use of clean technology which is included in the broader framework of the green economy. Improved air and water quality and availability of electricity also have direct impacts on life expectancy and general daily health. Clear policy direction for supporting a green economy in Indonesia implies growing demand for green technologies, knowledge and expertise.

Furthermore, increased opportunities for Indonesians to work in Australia's childcare sector may unlock potential economic benefits by allowing skilled Australian workers, both men and women, to return to the workforce, where they were previously prevented by a lack of available childcare places.

²⁶ Afrizal Firmansyah, Yaw-Yih Wang, *A Strategic Planning to Develop the Medical Travel Industry in Indonesia*, from <http://www.wbiconpro.com/447-Afrizal.pdf>.

²⁷ <http://stats.oecd.org/index.aspx?queryid=27481>

Opportunities for technology sharing and development

Technology has a fundamental role in wealth creation, improvement of quality of life, economic growth, as well as energy and environmental conservation. England benefitted from the industrial revolution and the United States grew significantly when it emerged from an agrarian economy to become one of the world's super powers. Growth in developing countries such as India and China is also spurred by technological innovation.

There are numerous opportunities that can arise from Australian technological transfer to Indonesia, and these opportunities are cross-sectoral. Australia has a lot of skill and experience in computer software deployment and high speed telecommunications development. Australia's current experience in establishing a national broadband network could be shared with Indonesia to ensure that the enabling technology of the internet is available across Indonesia to assist with economic development and overcoming regional equity issues.

Australia also has a role to play in assisting Indonesia achieve food security by providing technology and expertise to increase agricultural productivity. Australia, largely through its research institutes and universities, is a world leader in agricultural technology and well placed to provide this kind of knowledge and technology transfer. The private sector is also highly capable and willing to share technology and skills provided that a commercial business proposition exists to do so.

Considering that Australia has world-class expertise and technology (including environmental management) in the mining and METS²⁸ sectors, losing investments from Australia also means that Indonesia misses out on knowledge sharing and technology transfer opportunities.

Another example of opportunity in the technical sector is in pharmaceutical research and drug-testing, where Indonesia has relatively cheap costs compared to its neighbours. Drug testing facilities already exist in Indonesia, yet the technology needs to be improved. This provides a compelling opportunity for Australian pharmaceutical companies to develop products in Indonesia while investing in improved Indonesian pharmaceutical testing facilities.

As Indonesia's oil production has decreased, the country has attempted to shift toward natural gas and geothermal sources for power generation. Indonesia's total geothermal energy potential is equivalent to 27,710 MW of electricity, with approximately 41% confirmed as probable reserves, 3.8% as possible reserves and 8.3% as proven reserves. Indonesia is considered to possess the largest geothermal energy capacity in the world.²⁹ Currently Indonesia has only 1200 MW of capacity. The government plans to build 44 new geothermal plants by 2014, but progress has been slow. Most of the geothermal resources in Indonesia are "conventional" or "volcanic" systems, unlike geothermal sources in Australia. Technology development and investment in geothermal power aligns with the spirit of sustainability and a green economy as it is a zero-emission source of electricity.³⁰

Aside from that, developing environmentally friendly transportation such as mass transit vehicles or electric cars can represent major opportunities, combining Australian expertise and

²⁸ METS: Mining equipment technology and services.

²⁹ PWC – Investment and Taxation Guide, May 2012 – 5th Edition

³⁰ <http://www.cleanenergycouncil.org.au/technologies/geothermal.html> & <http://www.agea.org.au/geothermal-energy/about-geothermal-energy/>

low cost manufacturing in Indonesia. This will not only fulfil domestic demand, but also create an opportunity to participate in the global supply chain.

Opportunities for establishing integrated value chains

The manufacturing sector in Indonesia has great potential, especially considering the size of the available labour force and the demographic dividend. In 2011, iron and steel manufacture expanded by 15.03%, followed by textiles, leather goods, and footwear with growth of 8.63%. Other industries which showed growth were paper and paper products (8.63%), food and beverages (7.29%) and automotives (7.01%)³¹. According to the Ministry of Industry, there are eight priority sectors in Indonesia. Those sectors are steel, cement, petrochemicals, ceramics, electricity and electrical equipment, machineries, textile and textile products and footwear.

Meanwhile, production in textiles, clothing and other manufacturing fell by 24% in Australia in 2010-11. Other industries also recorded falls over this period, such as printing and recorded media (18%), wood and paper products (10%) and petroleum, coal, chemical and rubber products (6.3%). Examples of increases in production over the period include metal products manufacturing (15%) and food, beverage and tobacco products (4.4%)³².

The IA-CEPA should promote cooperation in the manufacturing sector and create cross-border value chains to develop products for a world market. Indonesia is capable of becoming a valuable manufacturing hub for Australia similar to the way Australia has previously engaged with Japan and currently engages with China. Indonesia is still seen as a low-cost manufacturing hub for countries like Korea, Taiwan and Singapore which highlights Indonesia's manufacturing capability. As an example Australian businesses can provide design, technology and marketing competencies while Indonesian businesses provide the manufacturing capacity. This will also boost opportunities to access third-country markets. It should be noted that some of the opportunities are already being realised, for example in cross-border design, manufacture and marketing of mining equipment, safety footwear and commercial kitchen equipment for supply to third-country markets. Opportunities exist in Indonesia for Business Process Outsourcing (BPO) which could be realised through the IA-CEPA with appropriate technological development.

Future opportunities exist for Indonesia and Australia to cooperate in petroleum production and engage in cross-border pipeline trade in hydrocarbon products along their mutual border. This could enable commercial development of the two countries resources jointly, with hydrocarbon products being able to be exchanged across the border. The IA-CEPA should include provisions that provide the framework for this to occur, as happens currently in the ASEAN region.

There is also a large tourism trade between Australia and Indonesia and an increasing number of Australians living in locations such as Bali and working in remote mining locations in Australia. Indonesians are highly regarded for their customer service skills and experience. These skills could be transferred to Australia through improved movement of people opportunities to advance Australia's tourism sector in servicing the global tourism market.

³¹ Ministry of Industry

³² Australian Bureau of Statistics

Other than those opportunities mentioned above, there are other outward looking opportunities in the field. Learning from Singapore and Hong Kong as a well-regarded hub for financial services, as well as a major hub for air and sea transport and cargo, Indonesia can position itself as another hub to connect Australia to the rest of the world in a way that has never been seen before. With an open economy to facilitate this and advanced partnership with Australia, this will further develop the opportunity to participate in global supply chains, provide services through the region and even develop alternate tourism service opportunities in both countries beyond Bali and Bondi.

Recommendation: Pilot Projects

In order to build momentum for the IA-CEPA the IA-BPG has identified and agreed on two specific pilot projects which can be implemented with immediate effect.

These pilot projects are:

1. **“A Healthy Diet”** – Support for the MP3EI goal of increasing consumption of red meat in Indonesia, and also consumption of Indonesian tropical fruit in Australia.

Such a project needs to consider the full range of requirements to meet the MP3EI goals for red meat consumption in Indonesia. That is, not only supply issues but also the logistics chain, domestic storage and meal preparation (that is, meat is rarely eaten on its own but is mostly consumed as part of a meal with other ingredients including rice, vegetables, etc.)

If we consider the issues for the complete “paddock to plate” chain, then we also need to consider the constraints and requirements for investment, movement of skilled people and cultural requirements.

The outcome from such a project would be improved quality of life, health and life expectancy.

As a reciprocal project, it may also consider market access into Australia for tropical fruits.

The project is not meant to be limiting but needs to be defined in realistic terms that can be dealt with under a pilot project that once proven could move to consider other sectors such as dairy products and aquaculture.

2. **“A Skilled Workforce”** – To support increased skills development in Indonesia and Australia by facilitating easier movement of skilled people between countries and increased capability transfer.

This project would be aligned to MP3EI goals for improved skills in Indonesia and to address skill shortages in Australia. It would involve consideration of issues related to education, language skills and in-country experience through internships and work placements.

This project would have a strong emphasis on the movement of people and could consider an IA-CEPA tailored visa program.

This project would involve the services sector, consideration of investment models and increased cultural understanding and empathy.



The outcome of this project would be increased economic development in both countries and the creation of a more skilled Indonesian workforce who can then assist with local development as well as participation in the ASEAN Open Economy and the ASEAN plus 6 Regional Comprehensive Economic Partnership (RCEP).

Sectoral discussion – matrix

ISSUES	AGRICULTURE & AGROBUSINESS	MINING & ENERGY	MANUFACTURING	SERVICES
Remaining tariffs	<ul style="list-style-type: none"> For a range of products, Indonesia is reducing but not eliminating tariffs, including some on live cattle, certain categories of sheepmeat, frozen pork, processed seafood, some dairy products, some fresh and processed fruit and vegetables. Australian producers seek tariff conditions equivalent to China under ACFTA. Sensitive commodities such as rice, sugar, wine and spirits are excluded from Indonesia's AANZFTA tariff reduction commitments. 	<ul style="list-style-type: none"> Some renewable energy systems may attract tariff lines. 	<ul style="list-style-type: none"> Indonesia is reducing but not eliminating tariffs on several items, including automotive products, passenger motor vehicles and iron and steel lines. Australia applies slower phasing out arrangements for tariffs on passenger motor vehicles manufactured in Indonesia. A number of manufactured products are subject to tariffs including some apparel and clothing products made from wool, cotton and other textile fibres. Some tariff lines on textiles and textile products in Australia remain and will only be reduced to 0% by 2020. 127 tariff lines on clothing in Australia will be phased out in 2020 and 22 lines in 2015. Wine faces an extremely high import duty rate and 	—



ISSUES	AGRICULTURE & AGRIBUSINESS	MINING & ENERGY	MANUFACTURING	SERVICES
			restrictive import procedures that can foster smuggling due to high demand.	
<i>Regulations and procedures</i>	<ul style="list-style-type: none"> The Indonesian Government is planning to introduce new legislation which will make <i>halal</i> certification mandatory. <i>Halal</i> certification also applies to products unrelated to the slaughter of animals. Cumbersome importation licensing and slow certification procedures in Indonesia cause delays and high costs. Ambiguous regulations, administrative processes and frameworks in Indonesia create an uncertain trading environment. 	<ul style="list-style-type: none"> Complicated and overlapping regulations represent a serious impediment to mining businesses. Lack of coordination among ministries resulting in unclear and restrictive government regulations that hamper the development of the mining industry. Inconsistent regional or local government regulations in Indonesia hinder investment and development of opportunities. 	<ul style="list-style-type: none"> Indonesian government applies export restrictions to favour domestic downstream industries, e.g. timber and forestry products. Australia's strict regulation of pharmaceuticals and botanical products represents an impediment to Indonesian herbal medicine companies. 	<ul style="list-style-type: none"> Protective policies and regulations are still applied in the services sectors of both countries. Different accreditation systems between the two countries hinder education cooperation, which includes standards on education curricula and teacher competencies. The Australian definition of "skilled" worker is based on a recognised qualification.
<i>Technical barriers to trade (standards and certifications)</i>	<ul style="list-style-type: none"> Excessive food labelling requirements often require exporters to reveal propriety information, leading them to discontinue exports to Indonesia. Indonesia applies complex import procedures, including SNI (National Standards), 	—	<ul style="list-style-type: none"> The Indonesian SVLK standard is not yet recognised by the Australian government, potentially impacting trade of wood and wood products. 	—



ISSUES	AGRICULTURE & AGRIBUSINESS	MINING & ENERGY	MANUFACTURING	SERVICES
	<p><i>Badan POM</i> (Drug and Food Control), and ML registration numbers.</p> <ul style="list-style-type: none"> • High SPS standards and quarantine requirements in Australia which Indonesian producers often find difficult to meet. 			
<i>Trade restrictions, such as import quotas and licensing</i>	<ul style="list-style-type: none"> • Import quotas (caps) on beef and uncertain live cattle import requirements for breeding cattle, meant to protect domestic producers caused undersupply of beef and price increases. • Some goods, such as rice, and sugar amongst others are subject to exclusive or special import licenses. • Export restrictions to favour domestic downstream industries, e.g. cocoa beans attract progressive export tariffs. 	<ul style="list-style-type: none"> • The Indonesian government recently imposed a ban on exports of raw minerals. • Discriminatory treatment in mining services. The law requires that mining services be provided by an Indonesian company with priority given to companies that are wholly Indonesian-owned. Foreign services companies may only operate under special conditions where national providers are incapable. 	<ul style="list-style-type: none"> • Australian businesses call for anti-dumping measures for paper products to protect the local industry. • Some goods, such as plastics, medicines, alcohol and lubricants amongst others are subject to restrictions such as special licences and/or limited import volume to Indonesia. 	<ul style="list-style-type: none"> • Discriminatory treatment in professional services in Indonesia. • Under current Indonesian regulations commercial presence of foreign services providers is not permitted without engaging local partners. This applies to all business services including lawyers, accountants, architects and consultants.
<i>Movement of natural persons</i>	<ul style="list-style-type: none"> • Difficulties bringing in foreign experts in agriculture (related to immigration and permits) from Australia to Indonesia and semi-skilled labour from 	<ul style="list-style-type: none"> • Difficulties bringing in foreign experts in mining (related to immigration and permits) from Australia to Indonesia and semi-skilled labour from 	<ul style="list-style-type: none"> • English language skill in Indonesia is often insufficient to meet Australian visa requirements 	<ul style="list-style-type: none"> • Simplification of work permits for lecturers and researchers, and more relaxed visa provisions for students.



ISSUES	AGRICULTURE & AGRIBUSINESS	MINING & ENERGY	MANUFACTURING	SERVICES
	<p>Indonesia to Australia.</p> <ul style="list-style-type: none"> English language skill in Indonesia is often insufficient to meet Australian visa requirements. 	<p>Indonesia to Australia.</p> <ul style="list-style-type: none"> Indonesian labour skills standards are still perceived to be lower than Australia's. English language skill in Indonesia is often insufficient to meet Australian visa requirements 	<ul style="list-style-type: none"> High expenses for Indonesian companies that would like to hire foreign experts or professionals. 	<ul style="list-style-type: none"> Restrictions exist on the temporary entry of banking staff and the requirement that work permits for foreign bank personnel be approved by Indonesia's Central Bank. Restrictions apply to foreign physicians and surgeons operating in Indonesia. IELTS preparation is considered an additional expense in obtaining visas for nurses from Indonesia. Indonesian nurses have requested mutual recognition of qualifications and certification by the Australian health industry. Recognition of qualifications and certifications also sought for accounting, legal and other professional services in Indonesia. English language skill in Indonesia is often insufficient to meet Australian visa requirements.



ISSUES	AGRICULTURE & AGRIBUSINESS	MINING & ENERGY	MANUFACTURING	SERVICES
Foreign direct investment restrictions	<ul style="list-style-type: none"> Cattle farmers in Indonesia have difficulties obtaining necessary financing to develop their businesses. Indonesia applies 49% cap on foreign ownership to farms where the main crops are corn, soy, peanuts, green beans, rice, cassava and sweet potato. Foreign investment in plant culturing, nurseries, genetic agriculture and GMO products may be subject to limitations and must obtain a recommendation from the Indonesian Minister of Agriculture. Indonesian wheat flour industry is not in favour of new mills. 	<ul style="list-style-type: none"> Investment uncertainty exists due to foreign ownership divestment regulations under the current Indonesian mining regime. The draft Negative Investment List proposes that many services sectors be restricted to 100% Indonesian ownership. 	<ul style="list-style-type: none"> Need for assurance of supply of raw materials from Australia. Construction of warehouses in Indonesia may be needed. Most Indonesian herbal medicine companies are SMEs. 	<ul style="list-style-type: none"> Commercial presence of foreign services providers in Indonesia is not permitted without engaging local partners. This applies to all professional services including lawyers, accountants, architects and consultants. In Indonesia, FDI is limited to 49% in the education sector. Indonesia's Negative Investment List and labour restrictions in several cases result in impeding growth in services sectors.
Communication and exchange of information	<ul style="list-style-type: none"> Insufficient information exchange on business opportunities in the agriculture & agribusiness industries from both countries. Lack of engagement between business communities from 	<ul style="list-style-type: none"> The Australian business community points to a lack of quality data on petroleum and gas which is a major factor in attracting new exploration. 	<ul style="list-style-type: none"> Insufficient information exchange on business opportunities in the manufacturing industries from both countries. Lack of engagement between business communities from both countries. 	<ul style="list-style-type: none"> Insufficient information exchange on business opportunities in the services industries from both countries. Lack of engagement between business communities from both countries.



ISSUES	AGRICULTURE & AGRIBUSINESS	MINING & ENERGY	MANUFACTURING	SERVICES
	<p>both countries.</p> <ul style="list-style-type: none"> • Lack of information on procedures and documentation for the importation of some food products can be a barrier to trade. 			
<i>Capacity issues</i>	<ul style="list-style-type: none"> • Difficulties in ensuring consistency of supply of agricultural products. • Indonesian abattoir technology is under-developed, affecting beef production capacity and meat quality for consumers. • Poor infrastructure, supply chains and investment uncertainty are barriers to opportunities to build integrated supply chains between both countries. • Insufficient technical and technological assistance for Indonesian growers and farmers, including good agricultural practices, good handling practices and good manufacturing practices. 	<ul style="list-style-type: none"> • Lack of infrastructure (for example power stations, lines and wires, pipelines, local connections services) available in Indonesia's remote areas where most mining projects are located. 	<ul style="list-style-type: none"> • Lack of infrastructure 	—



Annex 1: Deliberation on sectors

The following sectoral discussions are the result of a stakeholder consultation process conducted between July and October 2012. While this report aims to be as comprehensive as possible it should be emphasised that it is not possible to include all the concerns and positions of all business stakeholders. For this reason an ongoing process of stakeholder consultation is recommended to continue throughout the IA-CEPA negotiation process and beyond.

Agriculture & Agribusiness

Agriculture represents a key area of trade in commodities from Australia to Indonesia. Indonesia is currently Australia's largest export destination for unprocessed foods and is an emerging market for Australian processed food products driven by rising domestic demand and incomes in Indonesia. Meanwhile, agricultural and food exports from Indonesia to Australia have good potential but are still very limited despite the potential for imports of fresh and processed fruits, vegetables and seafood. Strict Australian Sanitary and Phytosanitary (SPS) standards, cause difficulties for Indonesian exporters and reduce the attractiveness of the Australian market from their perspective.

Similarly, Australian food exporters report difficulties in accessing Indonesian markets due to inconsistent and unpredictable regulations such as *halal* certification, import bans and quotas and livestock import regulations.

Agricultural production and exports in Indonesia are hampered by structural issues of productivity, quality and consistency of supply and poorly developed internal and export supply chains. Poor infrastructure such as damaged roads, unstable electricity supplies, and cold chain limitations are the common infrastructure problems facing Indonesia which result in food spoilage and waste.

As a growing economy with rising domestic consumption, notably for food and beverages, this poses a challenge to food security. Supply chain issues also obstruct the development and global competitiveness of the Indonesian agribusiness sector, impacting its capacity to optimise opportunities both in the domestic and export markets. Meanwhile a range of food "self-sufficiency" policies limiting imports of agricultural commodities are a threat to Australian exports and inadvertently pose a risk to the sustainable supply of food products in Indonesia. For instance, Indonesian policies restricting the imports of certain Australian rice and wheat flour also contribute to reduced consumer choice as well as food supply constraints. Overcoming these issues with a program to address food supply throughout the complete supply chain will reduce food insecurity in Indonesia.

In Indonesia, Australian agriculture and food markets are seen as difficult to access and small. In Australia, Indonesian market opportunities may be being overlooked through lack of knowledge but also the crowding out of Indonesia with the focus on China in many industries, and in political and public discussions.

Indonesia is a major buyer and processor of Australian wheat and restrictions on equity and on flour imports need to be lifted to increase productivity and drive a competitive environment in this sector.

Visions and Opportunities

The IA-CEPA should foster the development of cross-border value chains, especially in agriculture. The agriculture and food sectors in Indonesia are mostly complementary and offer very strong opportunities for cooperation. A cross-border value chain will help the agribusiness sectors from both countries to increase their production capacities and supply internal market demands as well as securing new third-market opportunities. By working together, Australia and Indonesia can enhance food security through the development of integrated, reliable supply chains.

Cross-border value chains and economic cooperation imply the facilitation of two-way investment in agriculture and agribusiness under the IA-CEPA. Both countries present great opportunities for mutual investments in agriculture and agribusiness. Cross-border value chains are already taking place to some extent, from Australia to Indonesia in the wheat flour, processed products, dairy and beef sectors – and from Indonesia to Australia in cocoa, coffee and vegetable oil. These examples should provide the starting point for a deeper economic cooperation in agriculture.

The IA-CEPA should recognise the need to protect the unique environments of both countries from introduced pests and diseases. In this context, SPS standards should be maintained to the extent they are supported by scientific data and a risk-based assessment process and should not impede justified trade flows. Capacity building, cooperation and mechanisms to assist Indonesian producers meet SPS standards as well as customer standards including quality and reliability of supply are critical factors to create a more fluid trade between both countries, necessary for developing a cross-border value chain.

This sector also offers excellent opportunities for cooperation through two-way trade and investment, joint ventures and technical cooperation to improve productivity and develop value chains. Trade in agriculture and food services also has great potential in itself and as a mechanism to improve goods trade, investment and partnerships.

Elaboration on opportunities in this sector includes:

■ ***Cross-border value chain for agribusiness and food products***

Indonesia and Australia produce complementary agricultural products which drives cooperation in the agribusiness sector. Australia can support Indonesia to overcome its supply consistency difficulties. Meanwhile Indonesia can take advantage of the open market to provide a wider range of better quality products and more competitive prices to domestic consumers in Indonesia and in Australia. For instance, there are opportunities for Australia to build an integrated beef industry, including in Eastern Indonesia.

■ ***Value chain integration to access third party market opportunities***

Australia and Indonesia can cooperate to access third-country markets. Furthermore, Indonesia's more established and recognised *halal* brand can enhance penetration in

Islamic countries. Further examples of this cooperation and joint value chain can be formed in beef, cocoa, fish, dairy and other food products.

■ ***Mutual investments to increase capacity and competitiveness and secure supply***

With abundant land mass, ideal climate, proximity to Indonesia, infrastructure and logistical links, Australia represents an ideal investment for livestock and raw or fresh food products, such as cattle, lamb, wheat, rice, fish, soybeans and livestock feed. There are opportunities for investing in Indonesia taking into account its supply of affordable labour and dense population centres. This may apply to a range of industries and supply chain processing such as abattoirs and cattle breeding and raising, fish processing, food manufacture such as tofu, noodles and pasta, etc. In line with the Indonesian government's MP3EI plan, Australia has been invited to invest in eastern Indonesia, notably the Bali-East Nusa Tenggara corridor, which is geographically much closer to Australia and is planned for agribusiness development.

■ ***Knowledge sharing, technology transfer and capacity building***

The difficulties faced by Indonesian tropical fruit farmers in meeting Australian quality and SPS standards suggests the need for greater information exchange and capacity building in the areas of Good Agricultural Practices, Good Handling Practices and Good Manufacturing Practices, plus development of reliable value chains that will enhance quality, value and market access.

Not only limited to technical matters and transfer of knowledge, capacity building initiatives are also needed to address a possible lack of understanding due to language and/or cultural barriers. If Indonesian producers can gear up to successfully supply Australian markets, then entry to other countries will become easier.

Indonesia should not seek to reduce Australia's SPS entry regime but Australia should consider not only technical assistance at a scientific level but also deeper engagement by actual primary producers and other value chain participants to assist the development of Indonesia's agricultural industries to meet the high standard required for market entry in global supply chains.

■ ***Cooperation to increase quality and productivity***

Productivity improvements can be fostered through research and development. This may assist Indonesia to gain productivity and competitiveness in the region. For instance, Indonesian potato production per hectare is very low. Australia can supply seed potatoes and technical assistance that will improve productivity. Similarly, rice production in Australia reportedly yields two times more per hectare when compared to Indonesia. Australia can help Indonesia secure food security by providing technology and expertise to increase agricultural productivity.

Furthermore, as Australian demand for Indonesian cocoa is set to increase rapidly, capacity building in remote areas such as Papua, Sumatra and Sulawesi will enable Indonesia to overcome productivity issues and become a major source in a global cocoa supply chain.

The Indonesian dairy market is experiencing strong growth and offers major opportunities for an integrated milk product industry – including transfer of genetics, technology and production, marketing and distribution expertise. Productivity and efficiency of Indonesian producers can be improved through joint enterprises with Australian industry.

While Australia has certain natural competitive advantages in terms of production of agricultural products, it is difficult for Australia to compete globally in more highly processed food products. However, Australia is capable of producing very high quality products suitable for the more affluent and demanding consumer.

For this reason, access to the Indonesian market by Australian producers of products such as rice and flour, present no threat to local producers. In fact the presence of high quality top end consumer products reduces the pressure on local supplies, thus increasing food supply, as well as fostering innovation through increased consumer choice and exposure to innovative products.

A collaborative effort between business in Australia and Indonesia in this field of food production and processing could assist to elevate businesses out of the trap of being SME producers subject to volatile global commodity markets into price setters in global food supply chains.

Elaboration on issues:

■ ***Movement of natural persons***

Difficulties exist for the movement of foreign experts in agriculture (related to immigration and permits) from Australia to Indonesia and semi-skilled labour from Indonesia to Australia. Unnecessarily high levels of English competency are required for Indonesian migrant workers (semi-skilled labour) to enter the Australian market. The ability for lower skilled Indonesians to travel to Australia and train and work in the agricultural and food sector would provide opportunities for skills, language development and knowledge transfer which would increase the capacity for Indonesia to build productivity and food security when the people return to Indonesia.

■ ***Production capacity and quality***

The Indonesian agriculture sector is facing productivity, quality, supply chain and technology issues, e.g. cocoa, coffee, dairy, beef, tropical fruits and vegetable oil. Indonesian abattoir technology is under-developed, affecting beef production capacity and meat quality for consumers. Poor infrastructure, supply chains and investment uncertainty are barriers to opportunities to build integrated supply chains between both countries.

■ ***Lack of assistance in farming practices and technology***

Insufficient technical and technological capacity for Indonesian growers and farmers, including good agricultural practices. Australia is a world leader in this field and well placed to provide this kind of knowledge and technology transfer. Australia's research institutes and universities are pre-eminent in agriculture and agribusiness. The private sector is also highly capable and willing to share technology and skills provided that a commercial business proposition exists to do so.

■ ***Regulations***

Ambiguous regulations, administrative processes and frameworks create an uncertain trading environment. Varied interpretations on regulations, uncertainties and risks around these, and a lack of information on procedures and documentation for the importation of some food products combine to form a barrier to trade.

■ ***Standards and certification, including halal***

Australian producers are faced with difficulties in meeting complex Indonesian import procedures and certification. More stringent *halal* standards are applied in Indonesia and apply to all processed and unprocessed food products, particularly in relation to some ingredients such as animal-based preservatives. Dual labelling issues have created further complications. The IA-CEPA provides an opportunity for an agreed *halal* certification system to be developed to provide certainty on certification requirements and processes.

■ ***Quarantine***

Difficulties are faced by Indonesian producers in meeting Australian SPS standards. Quarantine mechanisms must protect the unique environments of both countries and be based on scientific rigour and risk-based analysis. Quarantine measures should not impede otherwise justified trade flows, leading to inefficiency and higher production costs. Provisions of the Thailand-Australia FTA on quarantine may provide a useful benchmark for IA-CEPA.

Australia is unlikely to relax its standards but is likely to be very willing to assist with capacity building measures for Indonesian producers to meet Australia's SPS standards and regulations and to build reliable, high quality value chains.

■ ***Unfair tariff treatment***

Tariffs are applied on some Australian products whereas equivalent Chinese products are tariff-free as stipulated in the ASEAN-China FTA. Wine faces an extremely high import duty rate and restrictive import procedures that can foster smuggling due to high demand.

■ ***Import restrictions, such as import quotas***

Some import regulations create restrictions that are unwarranted and can inadvertently cause problems to the sustainable supply of food products in the Indonesian market, which in turn causes inflation of food prices and exacerbates poverty and malnutrition in Indonesia. As a prime example, strict import quotas on beef and uncertain live cattle import requirements for breeding cattle, meant to protect domestic producers can cause an undersupply of beef and price increases. Some goods, such as rice, flour, sugar, wine and spirits are subject to restrictions such as special licences and/or limited import volume. Market reform and private capital could assist productivity and provide better returns to farmers, and more secure and diverse consumer choice.

■ ***Export disincentives***

The Indonesian government applies export restrictions to favour domestic downstream industries. e.g. cocoa beans attract progressive export tariffs but cocoa powder and butter are tax free. This may hamper the development of cross-border value chains.

■ ***Financing and investment***

Indonesian farmers have limited access to capital. However, limitations on foreign investment in the agriculture sector exist, such as in crop production. A maximum 49% foreign ownership applies to farms where the main crops are corn, soy, peanuts, green beans, rice, cassava and sweet potato. Foreign investment in plant culturing, nurseries, genetic agriculture and GMO products may be subject to limitations and must obtain a recommendation from the Minister of Agriculture. Investment opportunities may exist for

Indonesian manufacturers in Australian cotton farming and also to facilitate knowledge and technology transfer to Indonesian farmers notably in West Nusa Tenggara.

An open market approach to encourage investment will lead to improved productivity and food supply reliability.

■ ***Cold chain***

Indonesia has not yet developed sophisticated cold chain logistics capability which improves food quality and availability. The capacity to produce more food which simply spoils through lack of infrastructure doesn't improve Indonesian food security.

Food security relies on more than supply alone. Due to high spoilage risks, Indonesians are familiar with short time-to-market and consumption regimes for meat and horticultural products.

Basic infrastructure like dependable electricity supply and refrigerated transport, handling, sales and home storage could change the dynamics of Indonesian food security. Such an approach means that food security should be considered as an issue of investment and infrastructure as much as it is an issue of basic supply and cultural preferences.

Improved cold chain and wider food processing opportunities will assist to create global food supply opportunities for both of our nations.

Mining and Energy

Australia ranks as one of the world's leading mining nations. It is known globally as a significant producer and exporter of resource commodities, including oil and gas. Of the ten main export products from Australia, seven are mining commodities, namely iron ore, coal, gold, crude oil, natural gas, bauxite and copper. The mining industry was the fourth largest contributor to Australia's gross domestic product (GDP) in 2009-10, accounting for 8% of total GDP.

The Australian mining equipment, technology and services (METS) sector is fast growing, supplying not only the Australian market, but also customers in Asia, Africa, the Middle East and Latin America. Last year METS exports were estimated to be around A\$3.5 billion per annum with the total annual revenue of the sector being approximately A\$12 billion.

The mining industry in Indonesia accounted for 4-5% of Indonesian GDP in recent years. However it contributes a much larger share of GDP in some provinces, mainly in remote areas such as Papua, East Kalimantan, West Nusa Tenggara and Bangka-Belitung. Indonesian exports of mining commodities to Australia are also relatively large, accounting for over 50% of the total amount of goods exports. This is mainly contributed by oil and gold which form the two largest export commodities to Australia with respective values of A\$2.9 billion (Rp28 trillion or around 50% of total goods exports to Australia) and A\$433 million (Rp4.2 trillion or around 7.5% of total goods exports).

Indonesia's energy demands are increasing yearly with around half supplied from oil. Despite the availability of vast energy resources, Indonesia's energy generating capacity per capita is amongst the lowest in the region; currently around 30 GW for more than 240 million people. Without a sound and sustainable energy management strategy, it is feared Indonesia is heading towards an energy crisis.

Australia with its large energy resources is an important supplier of world energy needs. Although it is a net importer of crude and refined oil (including from Indonesia), Australia is a net exporter of energy with energy consumption only one-third of energy production. Renewable energy contributes around 7% to Australian electricity generation and there are emerging renewable energy technologies that are yet to be commercially deployed such as large-scale solar energy plants and geothermal generation technologies.

Visions and Opportunities

Indonesia's growth is critically dependant on its capacity to fulfil its energy demands. The IA-CEPA should include provisions for cooperation between the two countries in terms of securing energy needs. Indonesia, with its renewable energy potential, notably in geothermal energy, can work together with Australia to develop renewable energy technologies which will help secure the energy needs of both countries. For instance, there are opportunities for cross-border cooperation in production and trading of gas, as already occurs within ASEAN.

The current mining regulatory framework in Indonesia is creating uncertainties for investment. This is critical as Indonesia's mining industry depends on foreign investment to explore new reserves and increase production. The regulatory environment is seriously inhibiting more investments from Australia. As a result, Indonesia is losing market share of investment to nations elsewhere in Asia, Africa and Latin America.

Considering that Australia has world-class expertise and technology in the mining and METS sectors, losing investments from Australia also means that Indonesia misses out on knowledge sharing and technology transfer opportunities. The IA-CEPA should address the current investment uncertainty to provide a more sound environment for the establishment of economic cooperation and cross-border value chains in the mining and energy sector. The IA-CEPA could also serve to facilitate a more significant cooperation between industry and government which could provide a win-win opportunity to attract Australian interest and investment in Indonesia.

Cross-border value chains in the mining and METS sectors also create opportunities to access domestic and third-country markets such as China or India. The growth of Asian economies, Indonesia and Australia included, will lead to increased demand for mining materials and products.

Elaboration on issues:

■ *Movement of natural persons*

Difficulties bringing in foreign experts in mining (related to immigration and permits) from Australia to Indonesia and skilled and semi-skilled labour from Indonesia to Australia. English language skill in Indonesia is often insufficient to meet Australian visa requirements. The Australian government policy is to favour using domestic labour to fulfil market demands with the use of Section 457 visas and Enterprise Migration Agreements for supplementary supply of foreign labour when needed. Enterprise Migration Agreements and regional Migration Agreements along with the Pacific Seasonal Worker program provide examples of tailored worker entry programs.

A hybrid of these existing schemes could be considered under the IA-CEPA to assist Indonesians to work in Australia under relaxed visa arrangements which include improvements to skills and English language while working in Australia to satisfy short term skills needs before returning to Indonesia as people of greater skill and ability to assist with the development opportunities there.

■ ***Good mining practices***

Environmental damage caused by irresponsible and unsustainable mining activities in Indonesia. Knowledge transfer and capacity building in industry best practices is required to address this serious concern.

■ ***Regulation***

Ambiguous regulations, administrative processes and frameworks create an uncertain investment climate. There is a lack of coordination among ministries resulting in unclear and restrictive government regulations that hamper the development of the mining industry. A mining export ban in Indonesia is unlikely to be effective in encouraging further domestic processing without improved infrastructure investment, energy reforms, and improvements in training and human resources to supply skilled workers to employers. A transparent, equitable and fair taxation law is needed in this sector.

■ ***Dispute settlement mechanism***

Resource exploitation is large scale and long term and this inevitably leads to disputes between investors, market participants and regulatory bodies. The sector relies upon predictable, cost effective and timely dispute settlement regimes. Court systems in Indonesia lack the confidence of investors and there is a need for the full range of dispute settlement mechanisms that are cost efficient, fast and more effective than litigation.

Similarly investors need certainty that they will not have their investment appropriated by Government actions. Investors need the capacity to defend their financial interests and exclusive enjoyment of their investments. Thus they require the ability to take direct, efficient and enforceable dispute resolution actions. If investors are exposed to unacceptable sovereign risk then investment will be curtailed and development will not occur at the optimal level.

■ ***Access to information***

Insufficient availability of geo-scientific data and the need to establish a national virtual geoscience library. Limited access to information regarding both Indonesia's and Australia's mining regulations.

■ ***Investment attractiveness***

Indonesian mining regulations, e.g. divestment rules and export ban, are creating uncertainty for foreign investors. Foreign investors are reluctant to invest and Indonesia is losing share of Australian investment in this sector which requires high capital funding.

■ ***Infrastructure***

There is a lack of infrastructure (for example power stations, lines and wires, pipelines, local connections services) available in remote areas where most mining projects are located.

■ ***Service restrictions for mining services providers***

Mining services must be provided by an Indonesian entity with a requirement for the mining services company to use local goods, local subcontractors and local labour where available. Where a local company is not available a foreign company may be used. A draft Negative Investment List proposes that many services sectors be restricted to 100% Indonesian ownership. This will stifle investment and technology and knowledge transfer where it is needed for growth and improved performance by the Indonesian mining sector.

Manufacturing

Since Indonesia's monetary crisis in 1998, the manufacturing sector in Indonesia has struggled to be competitive and to achieve the viability to enable new investment. Most of the factories are obsolete and less competitive due to insignificant investment in Indonesia in this sector. However, Indonesia's manufacturing sector may be on the verge of a revival. In 2011, the manufacturing industry contributed 6.2% to Indonesia's GDP and 24.6% to exports. By the end of 2011, almost all manufacturing sectors exhibited favourable growth.

Australian manufacturing is facing a number of pressures as well, such as an economy-wide productivity decline, rising energy and other costs, the persistently high value of the Australian currency, a tougher international competitive environment and slowing domestic demand. The contribution of the manufacturing industry to Australia's GDP between 2005-06 and 2009-10 fell from 9.5% to 8.7%. In 2010-11, the manufacturing industry employed 9% of the total people employed in Australia. Manufacturing lost 106,775 jobs between 2007 and 2012. Another 85,600 jobs may be lost in the next five years. The high dollar has made business harder for manufacturing exporting and import-competing firms.

In terms of trade, manufactured goods (including processed metals) account for around 21% of Australia's total exports. With regard to trade with Indonesia, manufactured goods account for around 30% of merchandise exports with a value of A\$1.5 billion (or Rp15.7 trillion). Meanwhile, manufactured goods account for about 40% of Indonesia's exports to Australia with a value of A\$2.1 billion (or Rp20.5 trillion). Indonesia's main exports to Australia include simply worked wood (A\$149 million), monitors, projectors and TVs (A\$114 million), rubber tyres, treads and tubes (A\$104 million), iron, steel and aluminium structures (A\$95 million), paper and paperboards (A\$74 million). Australia's main exports (excluding agro-food) are manufactures of base metals (A\$71 million), specialised machinery and parts (A\$65 million), pulp and waste paper (A\$41 million), and civil engineering equipment (A\$41 million).

Australia is a net importer of manufactured goods, with total value of imports reaching A\$160.8 billion (or about Rp1,570 trillion), while exports were A\$41.5 billion (or about Rp407 trillion). Indonesia also recorded a surplus in trade of manufactured goods with Australia. Even so, Indonesia's exports of manufactured goods were still relatively low compared to other countries, including ASEAN nations.

Visions and Opportunities

The simple equation of a developing country with a population of about 240 million people creates a critical mass of people requiring a wide range of consumer goods and services which will only grow and become more complex as the population increases and becomes more affluent. Australia has some difficulty in developing products at a globally competitive cost if the products are only targeted at the Australian local market.

The manufacturing sector in Indonesia has great potential, especially considering the size of the available labour force and the demographic dividend. In 2011, iron and steel manufacture expanded by 15.03%, followed by textiles, leather goods, and footwear with growth of 8.63%. Other industries which showed growth were paper and paper products (8.63%), food and beverages (7.29%), and automotives (7.01%). According to Indonesia's Ministry of Industry, there are eight priority sectors in Indonesia. Those sectors are steel, cement, petrochemicals, ceramics, electricity and electrical equipment, machineries, textile and textile products and footwear.

Meanwhile, production in textiles, clothing and other manufacturing fell by 24% in Australia in 2010-2011. Other industries also recorded falls over this period, such as printing and recorded media (18%), wood and paper products (10%) and petroleum, coal, chemical and rubber products (6.3%). Examples of increases in production over the period include metal products manufacturing (15%) and food, beverage and tobacco products (4.4%).

The IA-CEPA should promote cooperation in the manufacturing sector and create cross-border value chains to develop products for a world market. Indonesia is capable of providing a low cost manufacturing hub for Australia much like Japan and China before it. As an example Australian businesses can provide design, technology and marketing competencies while Indonesian businesses provide the manufacturing capacity. This will also boost opportunities to access third party markets. It should be noted that some of the opportunities are already being realised, for example in cross-border design, manufacture and marketing of mining equipment, safety footwear and commercial kitchen equipment for supply to third-country markets.

Cross-border value chains and economic cooperation may also create opportunities for the Indonesian manufacturing sector to compete with products from other countries such as China or other ASEAN countries both in the domestic and in the Australian markets. China was the largest exporter of manufactured goods to Australia accounting for a 25% share, whereas Indonesia accounted for only around 1.3%, compared to Malaysia (2.4%), Singapore (2.4%) and Thailand (4%).

Nevertheless, special emphasis should be given to logistics and transport issues in Indonesia as a key factor that impedes Indonesian manufacturing competitiveness and productivity. This issue is addressed further in the infrastructure section below.

Elaboration on issues:

■ ***Movement of natural persons***

Indonesia needs expert knowledge and investment to develop manufacturing technology; whereas Australian industry needs skilled (vocational and qualified) labour in other sectors.

■ ***Productivity and quality***

As mentioned under the section on agriculture, possibilities exist to increase productivity through cross-border integrated industries particularly in cereals, oilseed, meat and dairy processing. Indonesia's sugar processing industry may realise greater returns to farmers through market liberalisation and foreign investment. Australia has world-class skills in automotive design and engineering, as well as in specialised mining and other equipment which are highly complementary to Indonesia's production advantages.

■ ***Standards and certification***

Acknowledgement of the Indonesian SVLK³³ standard by the Australian government is sought by the Indonesian furniture manufacturing industry. Indonesia and Australia need to work together on licensing, certification and developing good manufacturing practices founded on environmental principles.

■ ***Competitiveness***

Australian manufacturers face increasing competitive pressure from low cost suppliers in countries, such as Indonesia. Australia also faces indirect cost pressures from high regulatory standards and environmental protections which reduce competitiveness.

■ ***Tariffs***

Under AANZFTA commitments, a number of manufactured products are subject to tariffs including some apparel and clothing products made from wool, cotton and other textile fibres. Some tariff lines on textiles and textile products in Australia remain and will only be phased out by 2020. 127 tariff lines on clothing in Australia will be phased out in 2020 and 22 lines in 2015. Indonesian tariffs for motor vehicles and some automotive parts lines, are being eliminated but not within commercially relevant timeframes. Tariffs levied by both Indonesia and Australia on the other country's automotive components do not make sense and should be removed entirely as IA-CEPA comes into force.

Financial Services

The financial services sector in Australia is among the most sophisticated and Australian banks among the strongest in the world. Finance and insurance is the fourth largest sector in Australia's economy, generating 8.1% or A\$81 billion of real gross value added in 2008-09. The finance and insurance industry is almost as big as the mining sector, the industry traditionally associated with Australia's growth.

In Indonesia, the financial system and its capacity to invest are still suffering from the legacy of the collapse of the banking system in 1997/98 and are believed to be inadequate to fuel economic growth. Capital stock remains relatively low and the scale of the financial sector is grossly under-developed compared with the rest of South East Asia both in nominal terms and as a share of GDP. Given the limited opportunities for fund raising in domestic financial markets, large Indonesian companies frequently turn to foreign markets to raise capital – as much as half of their investment is funded from foreign sources (most notably Hong Kong and Singapore). Indonesian banks are relatively small-scale and have a weak presence in foreign markets.

³³ Sistem Verifikasi Legalitas Kayu (Timber Legality Verification System)

Australian banks have a good commercial presence in foreign countries, which is a mode of service supply not included in export-import statistics, including in Indonesia. Indonesia's market access for financial services, including equity investment in local banks, is relatively liberalised which allows foreign investors to own up to 99% for banks, and approximately 80% for insurance companies and fund managers. There is no restriction on the establishment of Indonesian banks in Australia. This welcome liberalisation is hampered by the ability of the FDI investor to correctly employ offshore staff to manage and expand their investment as considered appropriate.

Visions and Opportunities

The IA-CEPA should promote an open financial services sector fostering greater competition by delivering lower interest rates and other cost savings for consumers. The presence of Australian financial services skills and reputation can introduce innovation, expertise and new technologies, as well as increasing the attractiveness of the Indonesian market to foreign investors. Indonesian banks have opportunities to establish businesses in Australia for trade financing and also services to Indonesian students and families.

IA-CEPA negotiations should also consider measures to maximise cooperation in this sector such as relaxing restrictions on work permits for foreign workers in Indonesia and Australia, encouraging Indonesian financial services companies to invest in Australia and vice-versa, and for Australian financial services to provide long-term credits required to finance infrastructure development in Indonesia.

Opportunities to invest in the Indonesian insurance sector are also available. Among ASEAN countries, Indonesia with its large and growing middle class represents a considerable opportunity for insurance and wealth management financial services. Australia can become a conduit destination for Indonesian high net worth and ultra-high net worth individuals and attract Indonesian investors in Australian ventures. There should be promotion of Australian wealth management expertise in Indonesia together with the various regimes the Australian government has implemented to position Australia as a financial hub.

There are opportunities for Australian banks to utilise and transfer their expertise in sophisticated financial products including products to underpin PPPs, so as to stimulate the investment in infrastructure in Indonesia.

There are also opportunities in the growing Islamic finance industry. There is potentially great complementarity and potential for joint ventures/partnerships in this sector with Australian expertise in banking and finance and Indonesian expertise in the growing Islamic finance industry.

Australian financial institutions are currently operating in the Indonesian market and indicate an intention to further grow and expand their presence, and stand ready to assist with capacity building between Australian and Indonesian financial services regulators. Australian financial institutions seek to maintain current regulations on FDI levels to ensure future Australian investment in the country. However, if current foreign investment levels for banks are lowered, IA-CEPA should address the question of a grand-fathering clause to protect current levels of investment. IA-CEPA negotiations should also consider ensuring equal treatment for Australian and Indonesian banks.

To facilitate two-way investment, IA-CEPA should consider the establishment of dedicated desks at the foreign investment review board – similar to the one afforded to Singapore under the Australia-Singapore FTA (Annex 4-III IV). IA-CEPA should consider mechanisms to encourage Indonesian financial services companies to invest in Australia.

The Malaysia-Australia FTA could provide a benchmark for the IA-CEPA in services, allowing professional service suppliers to directly invest.

Elaboration on issues:

■ ***Movement of natural persons***

Restrictions exist on the temporary entry of banking staff and the requirement that work permits for foreign bank personnel be approved by Indonesia's Central Bank. The IA-CEPA should remove barriers to entry for employees of Australian financial institutions. Training and work experience for young Indonesian bank employees in Australia should also be facilitated through the Australian visa system. Bapepam-LK (Indonesian ASIC equivalent) should recognise ASIC licensed financial institutions and allow them to register and operate freely in Indonesia.

■ ***Regulation***

More transparent regulation and corporate governance based on international standards, rule of law, clearly defined dispute settlement mechanisms and a well-resourced and independent regulatory structure should be promoted.

■ ***Information exchange***

There is insufficient information exchange on business opportunities in the financial services industries from both countries. This may cause unexploited opportunities for investment by Indonesian financial services companies in Australia, despite the absence of restrictions to invest.

■ ***Retirement funding***

If our proposals for improved capacity for movement of people are adopted then Indonesian workers will generate superannuation balances in Australia and potentially Australian workers in Indonesia will want to maintain superannuation schemes which build upon previous balances developed in Australia. Thus portable superannuation products and the ability to transfer balances easily between countries will be required to support the improved movements of people.

Professional & Business Services

Trade in services plays an important role in the overall trade relationship between the two countries. However limited statistical data and information make it challenging to analyse trade in services trends between Indonesia and Australia. Of the ASEAN countries, Indonesia contributed 15.1% of Australia's total imports of services in 2009, and conversely Indonesia accounted for 14.5% of Australia's services exports to ASEAN.

With more than 75% of Australia's output coming from the services industry, services play an important role in the economy. In Indonesia, the services industry employs around 55 million

skilled workers, mostly in the cities, which contributes 74% of GDP. Considering Australia's aging population this may represent a significant opportunity for Indonesian skilled workers. Trade and investment barriers typically encountered include; lack of recognition of qualifications, restrictions on rights to practice, constraints on commercial presence, equity restrictions, poor quality intellectual property rules and protections and tax rules. Often there are limitations on minimum capital requirements for business start-ups in Indonesia which are based on manufacturing experience rather than services which require little capital for establishment.

IA-CEPA should consider mechanisms for removing these impediments including mutual recognition of trade and professional qualifications, based on international standard equivalence, allowing people to practise in either country. Consideration should be given to allowing services professionals and corporations to be able to work and invest equally in both countries.

Visions and Opportunities

Indonesia has improved on its WTO commitments under AANZFTA, however barriers remain primarily for legal, accounting and architectural service providers. Australia's AANZFTA commitments on services are wide ranging. However, Indonesian service providers still experience some challenges when seeking to access opportunities in Australia. Australia maintains high standards for the education and qualification of services suppliers, such as lawyers, nurses and engineers. While these requirements serve to protect the Australian consumer, they create challenges for Indonesian services exporters. The ASEAN framework on Services (AFAS) currently in negotiation may provide a template and starting point for IA-CEPA services negotiations. The Malaysia-Australia FTA may also provide a reference point for IA-CEPA on professional services.

There are other outward looking opportunities in the field. Singapore for example is a well-regarded hub for finance and legal services, dispute resolution, etc. Also Singapore is a major hub for air and sea transport and cargo. Indonesia could develop a services industry hub (one or more) to rival Singapore or Hong Kong so long as appropriate settings are put in place.

Also there should be major tourism services opportunities in both countries beyond Bali and Bondi. There is a significant tourist trade from Australia to Indonesia but perhaps not so developed in the opposite direction. As Indonesians become more affluent and perhaps are working in Australia, there will be increased interest in holidaying abroad.

Australia needs to compete against the world for a share of Indonesia's holiday expenditure. Indonesia is renowned for its hospitality service and this is a particular area where Indonesian skills and experience can be transferred to Australia to assist the continued improvement of Australian tourism and other retail service provision.

Elaboration on issues:

■ *Movement of natural persons*

Visa and work permit policies and requirements are an impediment for the movement of skilled and experienced people between the two countries.

■ ***Competency and standards***

Lack of recognition of professional qualifications, training and certification, which also relates to the education sector, can be a hurdle to services trade liberalisation.

■ ***Rules, Regulations and Policy***

Protective policies and regulations are still applied in the services sectors of both countries.

■ ***Commercial presence***

Under current Indonesian regulations commercial presence of foreign services providers is not permitted without engaging local partners. This applies to all business services including lawyers, accountants, architects and consultants. The Malaysia-Australia FTA could provide a benchmark for the IA-CEPA in services, allowing professional service suppliers to directly invest.

■ ***Languages and cultural barriers***

Language differences and also differences between the education and training systems of Australia and Indonesia have become an impediment for Indonesian service suppliers to gain the necessary Australian licences. This also has an impact on Indonesians' ability to take advantage of the range of Australian visas that are available for persons wishing to enter Australia temporarily to work or provide services.

Similarly, few Australians have a high competency in Indonesian language and Indonesian culture. Australians should be encouraged to develop the skills required to maintain links with its IA-CEPA partner to ensure the potential partnership is maximised.

■ ***Investment***

Indonesia's negative investment list and labour restrictions in several cases result in impeding growth in services sectors and actually encourage imports of services from Singapore, Malaysia and elsewhere, including legal, health and audit services. Opening up services trade and investment is key to capability transfer in many sectors.

Education and Research

Higher education and vocational education and training are a key element in achieving Indonesia's MP3EI development master plan goal of becoming one of the 10 major economies of the world by 2025. Each MP3EI corridor includes knowledge and technology Centres of Excellence. The President's Innovation Initiative 1-747 seeks to harness science and technology to drive innovation and global competitiveness by lifting public and private R&D and innovation spending from 1% of GDP to 3% by 2025

Higher education in Australia is considered to be one of the best in the world. Education-related travel services in 2011 reached A\$15.1 billion, accounting for 4.8% of total exports and were Australia's largest individual service export item. However, in general the value of education related fees and sales in Australia are not at their highest levels. In the period of 2009-2010, the value of the education-related travel services reached A\$18 billion.

Australia's universities such as the University of Melbourne and the Australian National University are considered to be world-class institutions. Therefore Australia has become a preferred destination for Indonesians to pursue higher education.

According to Australian Education International, in 2011 students from China contributed to 28.8% of foreign students followed by India, Republic of Korea, Malaysia, Vietnam, Thailand and Indonesia. The number of Indonesian students in Australia last year reached 14,170, delivering close to A\$500 million to the Australian economy annually. The numbers of Australian students studying in Indonesia are extremely low. IA-CEPA should include mechanisms for improving these levels.

Vocational education and training will support development through up skilling and training workers in priority areas for the economy. Upgrading universities through research and development and encouraging partnerships between Indonesian and foreign education providers in twinning, dual degree programs, campus and curriculum development is needed.

Indonesia's university and TVET sectors are currently underperforming relative to the country's population and labour market needs. The sector needs major new investment. Education law reforms due soon will assist in opening up the sector. There are excellent opportunities for cooperation between Indonesia and Australia to help build education and research sector performance and consequently Indonesian labour market performance. Australia's TAFE, Universities and private education sector actively support Indonesia in achieving its MP3EI goals in cooperation with government policies.

Visions and Opportunities

The IA-CEPA development process should explore opportunities for extending higher education and TVET cooperation across a range of modes, including joint courses, more student and staff exchange, more joint research and joint campuses. There are excellent opportunities for cooperation between Indonesia and Australia to help build education sector performance – and as a consequence, Indonesian labour market performance.

Partnerships between Australian and Indonesian public and private academic institutions should be promoted so that the education and training services provided will support business in both countries and enhance opportunities in domestic and third-country markets.

Research cooperation between institutions from both countries can also enhance knowledge sharing and technological development, especially but not limited to areas such as agriculture, manufacturing, services and green economy.

Elaboration on issues:

■ ***Movement of natural persons***

Simplification of work permits for lecturers and researchers, and more relaxed visa provisions for students. Currently Indonesian minimum qualifications for Australian-qualified ESL teachers are inconsistent with Australian requirements. Under the IA-CEPA these requirements should be harmonised.

■ ***Accreditation acknowledgement.***

Different accreditation systems between the two countries hinder portability of degrees, and education cooperation, which includes standards on education curricula and teacher competencies.

■ **Investment**

Foreign investment is limited to a maximum of 49% in non-formal education. As for formal education partnership is mandatory with local education institutions with special requirements set by the Ministry of Education.

■ **Language**

English language levels required for entry to Australian tertiary education are challenging. Australian Network Television and Radio Australia provide a powerful partnership in English language learning and possibly teacher training and distance education. Australian business needs to support the growth of Indonesian language and cultural studies in Australia at school and tertiary levels.

■ **Internet delivery**

Internet delivery and open source learning are key to developing equitable delivery methods for higher education.

Health Services

Health or medical tourism has become a global trend. Under-capacity of Indonesia's health sector results in imports of billions of dollars of health services via Indonesians travelling abroad for health care to countries such as Singapore, Malaysia, and Australia. Last year, the Ministry of Health reported that Indonesians spent US\$11.5 billion on foreign health care imports, representing over one-third of Indonesia's total services imports.

In response Indonesia has started developing its own world-class hospitals such as the Siloam Hospital chain owned by the Lippo Group. It is hoped this will reduce levels of foreign health services imports.

Indonesia's demand for world-class health care opens up new opportunities for foreign hospitals as well as foreign medical doctors for practising in Indonesia. However, some barriers remain. Among others, Indonesia still limits foreign ownership of hospitals. According to Presidential Regulation 36/2010, foreign ownership of health facilities in Indonesia such as laboratory clinics, medical check-up clinics, as well as hospital management services is capped at 67%, while general hospitals/public health care clinics must be 100% Indonesian owned. The government has considered revising these regulations however to date no change has been forthcoming.

These days, Australia is facing competition from other countries which were not known for medical tourism about a decade ago. For example, South Africa which combines cosmetic surgery with luxury accommodation packages and safari tours. The Dubai Healthcare City recently entered the market as well. Another example is Thailand. The Bumrungrad International Hospital in Bangkok treats over 1 million patients per year with 420,000 of those being international visitors. Thailand provides a variety of services such as cosmetic surgery, organ transplants, joint replacements, dental treatment as well as computed tomography scans for the detection of cancer, heart defects and other conditions.

According to a study by Deloitte in 2011, factors that may hamper Australia's medical tourism include: limited capacity of private hospitals; a shortage of health care professionals in the

public sector and lengthy visa application processes for medical tourists to Australia compared to other competitor countries such as India.

Internet-based treatment may assist in this field, in much the same way as it has in remote Australia. Australian doctors can give advice using internet technology to people in remote locations. Such an approach will lead to an improvement in Indonesian health outcomes and remote servicing.

Visions and Opportunities

Opportunities in the sector include:

- ***Growing demand for world-class medical treatment in Indonesia***

The large number of Indonesians seeking health services abroad shows that there is a potential demand for better medical services in Indonesia. Many Indonesians are travelling abroad to gain access to more reliable health care services including to Australia which offers world-class health services.

- ***Potential labour supply from Indonesia***

If prepared with the proper language and medical skills, Indonesian nurses could become a source of health care professionals to fill demand in Australia. Opportunities exist for investment in health facilities in Indonesia and in nursing training facilities and services.

- ***Cooperation and investment to boost medical tourism potential***

Cooperation between Indonesia and Australia can provide solutions to overcome existing barriers to greater medical tourism in both countries. Labour from Indonesia can fill the shortage of health care professionals in Australia. Investment and partnership to build world-class healthcare facilities in Indonesia can increase capacity to absorb domestic demand and potential third-country markets looking for medical tourism in Indonesia.

Elaboration on issues:

- ***Restrictions on foreign physicians***

Indonesia lacks specialist doctors in many provinces outside Java. However, under current regulations, foreign doctors are not allowed to practice in the country, and are only allowed to work as consultants.

- ***Language barriers***

Australia has a demand for nurses, and Indonesian nurses have a good opportunity to work in Australia, but IELTS test requirements represent additional costs (IELTS preparation courses, test fees, etc.) that burden Indonesian nurses looking for work opportunities in Australia.

- ***Certificate accreditation acknowledgement***

Indonesian nurses have requested mutual recognition of qualifications and certification from the Australian health industry.

■ **Health tourism**

There are difficulties for Indonesians in obtaining Australian visas for surgery. Therefore, Indonesians prefer to go to other neighbouring ASEAN countries such as Singapore.

Indonesia needs to build its domestic health services capacity, but limitations exist on foreign investment. Limitations include: a maximum of 75% ownership in pharmaceutical industrial businesses; maximum 67% ownership in hospital management services, specialist/sub-specialist hospital services (200 beds), other hospital services (mental rehabilitation clinics), specialist medical clinics, and dental clinics, supporting health services (laboratory clinics, medical check-up clinics). Foreign investment is even more limited (up to a maximum of 49%) in other health services sectors such as supporting health services, acupuncture services, calibration testing, health equipment maintenance and repair services, nursing services (up to 51% in Medan and Surabaya). Relaxation of Indonesia's FDI regulations is seen as key to knowledge and technology transfer in this sector.

Green Economy

Indonesia is currently the third largest emitter of greenhouse gases in the world, mainly due to ongoing deforestation and forest degradation processes. Australia is the 17th largest total emitter of greenhouse gases, but one of the highest emitters per capita among developed countries, largely due to a dependence on coal for baseload energy production. Both countries still rely significantly on fossil fuels.

Both Indonesia and Australia have announced policy initiatives to support a green economy. In his speech at the UNFCCC in Copenhagen in 2009, President Yudhoyono committed Indonesia to reducing its emissions by 26% (41% with external support) by 2020. Further, in 2010 Indonesia signed a Letter of Intent with the Norwegian government for putting the conversion of natural forests and peatlands under a moratorium until 2013. Green policies are driven by the Ministry of Environment and coordinated with the National Development Agency (BAPPENAS). In addition to other regulations already in place, last year Coordinating Minister for the Economy Hatta Rajasa together with leading businesses and economists, signed a declaration aimed at supporting six areas: supporting a net zero deforestation policy, investing in energy efficient alternatives, promoting sustainable business practices, supporting programs in the protection of forest areas, promoting sustainable urban planning, and supporting sustainable consumption patterns.

Indonesia still maintains a high level of fuel subsidies. *The Jakarta Post* (September 19, 2012) reported that in the 2013 state budget bill, energy subsidies reached Rp274.74 trillion which outweighs the government's planned allocation for infrastructure spending which only stands at Rp200 trillion. Hence, overall development levels in Indonesia will benefit from less use of fossil fuels. If the funds currently spent on fossil fuel subsidies in Indonesia were directed to other development activities this could result in benefits for both the Indonesian economy and the environment – a win-win outcome. For example, one area of potential is the development of electric vehicles using Australian expertise and Indonesian low-cost manufacturing.

As of this year, Australia has introduced a carbon tax which obliges companies to pay a levy for every ton of carbon they produce. Other initiatives include, among others, the Carbon Capture and Storage Flagships Program (supporting the construction of large scale carbon capture and storage projects in Australia), Solar Flagships (supporting the construction of grid connected

solar power stations in Australia), and the Re-tooling for Climate Change (which provides funds to small and medium scale enterprises in reducing their carbon footprints). Australia also leads the world in research for reducing emissions from coal mining and combustion.

There is potential for enhancing cooperation between Indonesia and Australia in the green economy. Australia is one of the major investors in the Green Climate Fund with a focus on REDD and REDD+ activities and Indonesia which has one of the highest deforestation rates in the world has the potential to be a recipient of Green Climate Funds. The Green Climate Fund was established within the framework of the UNFCCC during the climate talks in Durban, South Africa. The organization is now Co-Chaired by Ewen McDonald, Deputy Head of AusAID.

Indonesia can also benefit from the use of skilled Australian expertise for instance in water and technology efficiency, building design, waste management, clean coal technology, LNG use and conversion.

Visions and Opportunities

According to the United Nations Environmental Services (UNEP), green economy practices have the potential to be more labour intensive than the extractive industries. However, despite the opportunities presented by a green economy, there are also trade issues between Indonesia and Australia that may hamper its development.

Indonesia has natural resources which support clean generation of power from sources such as natural gas and geothermal.

Also given the pollution in Jakarta there should be a major opportunity for the development of electric vehicles using Australian expertise and Indonesian low-cost manufacturing. Mass deployment is viable in Indonesia with a large centralised population whereas it is more difficult to achieve critical mass in Australia. In the right circumstances there is the potential for significant joint benefits from global supply opportunities for low emissions vehicles and recharging systems.

Indonesia's environment is suitable for the development of a green economy, provided that the technology is available. Indonesia's large rivers are suitable for hydro power and a number of companies both national (Pertamina) and multinational (Chevron) are starting to develop geothermal power. Countries such as Germany and the United States have become global players in providing green technology and expertise to other countries.

Through economic cooperation, Australia can take advantage of the green economy market in Indonesia that is still in its early stages. Often the Australian domestic market is too small to generate global critical mass in new industries whereas in combination with Indonesia, critical mass and efficient cost bases can be achieved to supply local demand and global opportunities in areas such as electric vehicles, and novel power generation. "Green economy" provides opportunities for two-way investment to assist Indonesia to develop in a way that is environmentally sustainable and economically feasible.

Also mass transit development opportunities exist in Indonesia, particularly in large urban centres where population density is extremely high and public transport facilities are lacking.

There are some opportunities to explore including:

■ ***Transfer of skills from Australia to Indonesia***

Indonesia can benefit from the transfer of skills in green economy practices for instance from the TAFE NSW Riverina Institute which provides training in green skills across industries and vocations.

■ ***Boosting Australia's presence in the green economy sector***

Countries such as Germany and the United States have become global players in providing green technology and expertise to other countries. Australia can take advantage of the green economy market in Indonesia that is still in its early stages and also become a global competitor in this field.

■ ***A growing market for green technologies in Indonesia***

A clear policy direction supporting a green economy in Indonesia implies growing demand for green technologies, knowledge and expertise.

■ ***Indonesian environment is suitable for green technology***

Indonesia's environment is suitable for the development of a green economy, provided that the technology is available. Indonesia's large rivers are suitable for hydro power and a number of companies both national (Pertamina) and multinational (Chevron) are starting to develop geothermal power.

Elaboration on issues:

■ ***Movement of natural persons***

Difficulties bringing in foreign experts in green technology (related to immigration and permits) from Australia to Indonesia.

■ ***Access to information***

A green economy is a relatively new objective for many countries and capacities need to be developed in Australia as well as Indonesia. Creating a green economy is a cross-sectoral issue and its implementation needs close coordination among different government agencies. There is a need to explain the potentialities of green economic practices to business practitioners in Indonesia and Australia.

■ ***Conflicting priorities***

In Indonesia as well as Australia, initiatives to bolster green economic practices often conflict with traditional economic models which focus merely on economic growth without considering environmental sustainability. Maintenance of fossil fuel subsidies to ensure low-costs for consumers is at odds with other efforts to reduce fossil fuel consumption and greenhouse gas emissions.

Annex 2:

Description of the IA-BPG process

Through a Memorandum of Understanding between the Chairman of the Indonesian Chamber of Commerce and Industry (KADIN), Suryo Bambang Sulisto, and the Representative of the Chairman of the Australian Chamber of Commerce and Industry (ACCI), Bruce P Fadelli in April, 2011, both parties agreed to establish a dialogue to provide business input to negotiations between Indonesia and Australia for the IA-CEPA. Together, the Indonesia Australia Business Council (IABC), the Australia Indonesia Business Council (AIBC) the ACCI and KADIN, initiated the establishment of a bilateral Indonesia-Australia Business Partnership Group (IA-BPG).

The IA-BPG agreed to work together to develop a joint business position on the IA-CEPA to be submitted to government negotiators, which highlights building partnerships and cooperation, exploring opportunities, addressing common issues and developing win-win actions to create momentum.

In order to address concerns and formulate recommendations, the IA-BPG agreed to hold consultations with business people/communities in their respective countries. In Indonesia, KADIN supported by IABC held a Focus Group Dialogue among its members and also continued with interview sessions for some others. In Australia, ACCI and AIBC held discussions with members, carried out an online survey and sought written submissions on the IA-CEPA from individuals and companies.

Based on the input, submissions and discussions, the IA-BPG formulated an initial report that was discussed at the first IA-BPG meeting in Sydney, Australia on 13th September 2012. The meeting itself received considerable attention from the business sector and representatives from both governments.

A further discussion took place in Jakarta, Indonesia on 27th September 2012 between IA-BPG members. Besides an in-depth discussion, the IA-BPG members also had the opportunity for discussions with lead negotiators from both countries and expressed their desire to continue to be involved throughout the negotiation process.

After submitting a **Progress Report on the IA-BPG consideration of the IA-CEPA** during the Australia – Indonesia Bilateral Trade Ministerial Meeting in Canberra, Australia on 12th October 2012, the IA-BPG met for the third time in Jakarta on 18th October 2012 to finalise a **Position Paper on Considerations Towards the Indonesia-Australia Comprehensive Economic Partnership Agreement** which will be the official submission to both governments on IA-CEPA.

However, IA-BPG members agree, that this will not end the process of engagement with the business communities of both countries. The continuous formal involvement of the business sector and other stakeholders such as local government, universities, experts, civil society, and the media has been emphasised by both governments and is essential to the continued success of the IA-CEPA.

Annex 3:

Stakeholder consultation list of participants

Indonesia – Jakarta

LIST OF STAKEHOLDERS INVITED FOR CONSULTATION

1. API-IMA – Indonesian Mining Association
2. APRINDO – Indonesian Retail Merchants Association
3. APSYFI – Indonesian Synthetic Fiber Makers Association
4. APKI – Association of Indonesian Pulp and Paper Manufacturers
5. APTINDO – Association of Indonesian Wheat Flour Producers
6. PERBANAS – Indonesian Banks Association
7. APTISI – Indonesian Private Colleges Association
8. ASPINDO – Indonesian Mining Services Association
9. GPEI – Indonesian Exporters Association
10. APJATI – Indonesian Manpower Services Association
11. GINSI – Association of National Importers
12. APKINDO – Indonesian Wood Panel Association
13. PERADI – Indonesian Advocates Association
14. GP JAMU INDONESIA – Indonesian Herbal Medicine Entrepreneurs
15. IAI – Indonesian Institute of Accountants
16. INKINDO – National Association of Indonesian Consultants
17. GP FARMASI INDONESIA – Indonesian Pharmaceutical Entrepreneurs
18. AUMI – Indonesian Medium-Sized Business Association
19. PPNI – National Indonesian Association of Nurses
20. APBI-ICMA – Indonesian Coal Mining Association
21. APIKI – Indonesian Fish Cannery Association
22. ABE – Association of Electrical Goods and Services
23. ASKINDO – Indonesia Cocoa Association
24. NAMPA – National Meat Processor Association
25. HIPMI – Indonesian Young Entrepreneurs Association
26. APRISINDO – Indonesian Footwear Manufacturers Association
27. AGII – Indonesian Industrial Gas Association
28. ISWA – Indonesian Sawmill and Wood Working Association
29. API – Indonesian Textile Industries Association
30. GAPKI - Indonesian Palm Oil Producers Association
31. GAPMMI – Indonesian Food and Beverages Producers Association
32. APINDO – The Employers' Association of Indonesia
33. AKPI – Indonesian Resort Association

LIST OF STAKEHOLDERS INVITED FOR CONSULTATION

34. ASPERAPI – Indonesia Exhibition Companies Association
35. GKSI – Union of Indonesian Dairy Cooperatives
36. HPPI – Association of Indonesian Shrimp Catching Companies
37. IGA – Indonesian Gas Association
38. GIMIGASI – Indonesian Oil and Gas Importers
39. INACA – Indonesian National Air Carriers Association
40. ASPANJI – Indonesian Association for Goods and Services Suppliers
41. APPAKSI – Association of Indonesian Construction Equipment Hire and Rental Companies
42. INSA – Indonesian National Ship-owners Association
43. IISIA – The Indonesian Iron and Steel Industry Association
44. APTEK – Mechanical and Electrical Technics Enterprises Association
45. APTANI – Association of Indonesian Agriculture, Forestry and Fishery Services
46. GPPI – Indonesian Plantation Companies Group
47. APMI – Indonesian Oil and Gas Drilling Contractors Association
48. INPEMIGAS – Association of Oil and Gas Support Industry
49. FORUM REKTOR – Indonesian Rector's Forum
50. APPI – Indonesian Financial Services Association
51. IWAPI – Indonesian Business Women's Association
52. ASEPHI – Association of Exporters and Producers of Indonesian Handicrafts
53. AEPI – Association of Indonesian Leather Product Exporters
54. ASMINDO – Indonesian Furniture and Craft Industry Association
55. INKOJAM – Herbal Primary Cooperative
56. INKOWAPI – Primary Cooperative of Indonesian Women Entrepreneurs
57. APKOBI – Association of Indonesian Steel Structure Manufacturers
58. AIPPI – Association of Indonesian Manufacturing Equipment Industry
59. GB Elektronika – Indonesian Electronics Producers Association
60. KUKMI – Indonesian Small and Medium Enterprises Association

STAKEHOLDERS PARTICIPATING IN FOCUS GROUP DISCUSSIONS (30-31 July 2012)

1. API-IMA – Indonesian Mining Association
2. APRINDO – Indonesian Retail Merchants Association
3. APSYFI – Indonesian Synthetic Fiber Makers Association
4. APKI – Association of Indonesian Pulp and Paper Manufacturers
5. APTINDO – Association of Indonesian Wheat Flour Producer
6. PERBANAS – Indonesian Banks Associations
7. APTISI – Indonesian Private Colleges Association
8. ASPINDO – Indonesian Mining Services Association
9. GPEI – Indonesian Exporters Association
10. APJATI – Indonesian Manpower Services Association
11. GINSI – Association of National Importers

STAKEHOLDERS PARTICIPATING IN FOCUS GROUP DISCUSSIONS (30-31 July 2012)

12. APKINDO – Indonesian Wood Panel Association
13. PERADI – Indonesian Advocates Association
14. GP JAMU INDONESIA – Indonesian Herbal Medicine Entrepreneurs
15. IAI – Indonesian Institute of Accountants
16. INKINDO – National Association of Indonesian Consultants
17. GP FARMASI INDONESIA – Indonesian Pharmaceutical Entrepreneurs
18. AUMI – Indonesian Medium-Sized Business Association
19. PPNI – National Indonesian Association of Nurses

STAKEHOLDERS INTERVIEWED (6 – 10 August 2012)

1. APBI-ICMA – Indonesian Coal Mining Association
2. APIKI – Indonesian Fish Cannery Association
3. ABE – Association of Electrical Goods and Services
4. ASKINDO – Indonesian Cocoa Association
5. NAMPA – National Meat Processor Association
6. HIPMI – Indonesian Young Entrepreneurs Association
7. APRISINDO – Indonesian Footwear Manufacturers Association
8. AGII – Indonesian Industrial Gas Association
9. ISWA – Indonesian Sawmill and Wood Working Association
10. API – Indonesian Textile Industries Association
11. GAPKI - Indonesian Palm Oil Producers Association
12. Syamsul Bahri – KADIN Indonesia
13. GAPMMI – Indonesian Food and Beverages Producers Association
14. APINDO – The Employers' Association of Indonesia
15. AKPI – Indonesian Resorts Association

Australia

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

1. ANZ BANK
2. AUSTRALIA-JAPAN BUSINESS COOPERATION COMMITTEE
3. AUSTRALIAN AND ASIAN CORPORATE ADVISERS
4. AUSTRALIAN BANKERS ASSOCIATION
5. AUSTRALIAN CONSTRUCTORS ASSOCIATION
6. AUSTRALIAN COUNCIL FOR PRIVATE EDUCATION AND TRAINING
7. AUSTRALIAN FAIR TRADE AND INVESTMENT NETWORK

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

8. AUSTRALIAN FASHION COUNCIL
9. AUSTRALIAN FINANCIAL MARKETS ASSOCIATION
10. AUSTRALIAN HEALTHCARE AND HOSPITALS ASSOCIATION
11. AUSTRALIAN PETROLEUM PRODUCTION AND EXPLORATION ASSOCIATION
12. AUSTRALIAN SERVICES ROUNDTABLE
13. AUSTRALIAN SUGARCANE GROWERS
14. BELLIS FRUIT BARS
15. BUSINESS COUNCIL OF AUSTRALIA
16. CAMPBELL BRIDGE SC
17. CBH (GRAINS) AUSTRALIA
18. CPA AUSTRALIA
19. CRAWFORD SCHOOL ANU INDONESIA PROJECT
20. DISTILLED SPIRITS INDUSTRY COUNCIL OF AUSTRALIA INC
21. EDMUND KRIEVINS
22. ENGINEERS AUSTRALIA
23. FEDERATION OF AUTOMOTIVE PRODUCTS MANUFACTURERS
24. GOVERNMENT OF WESTERN AUSTRALIA
25. HORTICULTURE AUSTRALIA
26. HOWARD KENWORTHY
27. INSTITUTE OF ARCHITECTS
28. INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA
29. INSURANCE COUNCIL OF AUSTRALIA
30. INTERNATIONAL LEGAL SERVICES ADVISORY COUNCIL
31. INVESTMENT AND FINANCIAL SERVICES ASSOCIATION
32. ITS GLOBAL
33. KRAFT FOODS
34. LAW COUNCIL OF AUSTRALIA
35. MASTER PLUMBERS' & MECHANICAL SERVICES ASSOCIATION OF AUSTRALIA (THE)
36. MEAT & LIVESTOCK AUSTRALIA
37. MINERALS COUNCIL OF AUSTRALIA
38. NATIONAL BAKING INDUSTRY ASSOCIATION
39. NATIONAL ELECTRICAL & COMMUNICATIONS
40. NATIONAL FARMERS FEDERATION
41. NATIONAL FIRE INDUSTRY ASSOCIATION
42. NATIONAL RETAIL ASSOCIATION
43. NT CATTLEMEN'S ASSOCIATION
44. NT LIVE EXPORTERS ASSOCIATION
45. OIL INDUSTRY INDUSTRIAL ASSOCIATION
46. PENNAM PARTNERS
47. PT EFFICIENT ENGLISH SERVICES
48. PT ETI FIRE SYSTEMS
49. SELANDIA BARU SERVICE LTD
50. TAFE DIRECTORS AUSTRALIA

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

51. TOURISM AUSTRALIA
52. UNIVERSITIES AUSTRALIA
53. VOCATIONAL EDUCATION ASSOCIATION
54. WALSH AND PARTNERS AND GLOBAL AUSTRALASIA PTY LTD (joint submission)
55. WINEMAKERS' FEDERATION OF AUSTRALIA
56. **AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY** representing:
 - ACCORD – HYGIENE, COSMETIC AND SPECIALTY PRODUCTS INDUSTRY
 - ACT AND REGION CHAMBER OF COMMERCE & INDUSTRY
 - AGROBUSINESS EMPLOYERS' FEDERATION
 - AIR CONDITIONING & MECHANICAL CONTRACTORS' ASSOCIATION
 - AUSTRALIAN BEVERAGES COUNCIL
 - AUSTRALIAN DENTAL INDUSTRY ASSOCIATION
 - AUSTRALIAN FOOD & GROCERY COUNCIL ASSOCIATION
 - AUSTRALIAN HOTELS ASSOCIATION
 - AUSTRALIAN INTERNATIONAL AIRLINES OPERATIONS GROUP
 - AUSTRALIAN MADE, AUSTRALIAN GROWN CAMPAIGN
 - AUSTRALIAN MINES & METALS ASSOCIATION
 - AUSTRALIAN PAINT MANUFACTURERS' FEDERATION
 - AUSTRALIAN RETAILERS' ASSOCIATION
 - AUSTRALIAN SELF MEDICATION INDUSTRY (ASMI)
 - BUS INDUSTRY CONFEDERATION
 - BUSINESS SA
 - CHAMBER OF COMMERCE & INDUSTRY QUEENSLAND
 - CHAMBER OF COMMERCE & INDUSTRY WESTERN AUSTRALIA
 - CHAMBER OF COMMERCE NORTHERN TERRITORY
 - CONSULT AUSTRALIA
 - HOUSING INDUSTRY ASSOCIATION
 - LIVE PERFORMANCE AUSTRALIA
 - MASTER BUILDERS AUSTRALIA LTD
 - MASTER PLUMBERS' & MECHANICAL SERVICES ASSOCIATION OF AUSTRALIA (THE)
 - NATIONAL BAKING INDUSTRY ASSOCIATION
 - NATIONAL ELECTRICAL & COMMUNICATIONS
 - NATIONAL FIRE INDUSTRY ASSOCIATION
 - NATIONAL RETAIL ASSOCIATION
 - NEW SOUTH WALES BUSINESS CHAMBER
 - OIL INDUSTRY INDUSTRIAL ASSOCIATION
 - PHARMACY GUILD OF AUSTRALIA
 - PLASTICS & CHEMICALS INDUSTRIES ASSOCIATION
 - PRINTING INDUSTRIES ASSOCIATION OF AUSTRALIA
 - RESTAURANT & CATERING AUSTRALIA
 - TASMANIAN CHAMBER OF COMMERCE & INDUSTRY

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

- VICTORIAN AUTOMOBILE CHAMBER OF COMMERCE
- VICTORIAN EMPLOYERS' CHAMBER OF COMMERCE & INDUSTRY

57. AUSTRALIA INDONESIA BUSINESS COUNCIL representing:

- AAMC TRAINING GROUP
- AAT SINGER
- ACADEMIES AUSTRALASIA
- ADELAIDE GIDDENS
- ADELAIDE RESEARCH & INNOVATION
- AECOM
- AFG VENTURE GROUP
- AIRLIE ASIA PTY LTD
- AITKEN,ROB
- ALAN ATWELL
- ALLENS ARTHUR ROBINSON
- AMSAT INTERNATIONAL PTY LTD
- ANDITTA ENTERPRISE
- ANTHONY LEWIS
- ANZ
- ASEAN FOCUS GROUP PTY LIMITED
- ASHBROOK ESTATE PTY LTD
- ASIA MINERALS CORPORATION LIMITED
- ASIA PACIFIC MARKET DEVELOPMENT
- ASIAAUSTRALIS
- ASPEN MEDICAL
- ATLAS SOUTH SEA PEARL
- AUSTINDCO PTY LTD
- AUSTRALASIAN LIVESTOCK SERVICES PTY LTD
- AUSTRALIA INDONESIA BUSINESS COUNCIL
- AUSTRALIAN COUNCIL FOR PRIVATE EDUCATION AND TRAINING
- AUSTRALIAN INDONESIAN BUSINESSWOMEN'S & PROFESSIONALS NETWORK
- AUSTRALIAN LIVESTOCK EXPORTERS' COUNCIL
- AUSTRALIAN MARITIME AND FISHERIES ACADEMY
- AUSTRALIAN NATIONAL UNIVERSITY
- AUSWORLD IMPORTS & EXPORTS PTY LTD
- AUTHENTIC CONSULTING PTY LTD
- AUTOMOTIVE PLANNING ASIA PTY LTD
- BAMBOO MICRO CREDIT (INC)
- BDO
- BENITA CHUDLEIGH
- BEYOND THE BREAK PTY LTD
- BLUESCOPE WATER AUSTRALIA
- BOSTECH DRILLING AUSTRALIA PTY LTD

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

- BRAEHEAD ADVISORY PTY LIMITED
- BRISBANE AIRPORT CORPORATION
- BUSINESS LINK INTERNATIONAL
- CAMPBELL BRIDGE
- CARCOM INSTALLATIONS PTY LTD
- CARNEGIE ENTERPRISES PTY LTD
- CENTRAL EQUITY
- CGSB
- CHAMBER OF COMMERCE AND INDUSTRY OF WESTERN AUSTRALIA
- CHARLES DARWIN UNIVERSITY
- CHEETHAM SALT LIMITED
- CHRISTIAN LIADINATA
- CHRISTOPHER FRENCH
- CHRYSSTAL & CO
- CHURCHILL MINING
- CLOONMORE
- CLOSKELT PTY LTD
- COCA-COLA AMATIL (AUST) PTY LTD
- COLIN SINGER
- COMMONWEALTH BANK OF AUSTRALIA
- CONSULATE GENERAL OF THE REPUBLIC OF INDONESIA (SYDNEY)
- CROSS CULTURAL COMMUNICATION AND MANAGEMENT
- CROWE HORWATH SYDNEY
- CROWN INTERNATIONAL HOLDINGS
- CURTIN UNIVERSITY
- DAVID FEIENBERG
- DEDESA
- DEEGAN, JOHN
- DEFOI PTY LTD
- DEPARTMENT OF AGRICULTURE AND FOOD WESTERN AUSTRALIA
- DEPARTMENT OF EDUCATION AND TRAINING INTERNATIONAL
- DEPARTMENT OF EDUCATION/BALAI BAHASA INDONESIA PERTH (INC)
- DEPARTMENT OF FOREIGN AFFAIRS & TRADE
- DEPARTMENT OF PRIMARY INDUSTRIES VICTORIA
- DEPARTMENT OF STATE DEVELOPMENT
- DJAKARTA LLOYD PTY LTD
- DON SCOTT-KEMMIS & ASSOCIATES
- DORIC GROUP HOLDINGS PTY LTD
- EMIL FORD & CO - LAWYERS
- EMU LINK MIGRATION & INTERCULTURAL CONSULTANCIES
- ENGENESIS PTY LTD
- ENTERPRISE RISK MANAGEMENT SOLUTIONS PTY LTD

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

- EQUANT RESOURCES PTY LTD
- EURO PTY LTD
- EXPORT FINANCE AND INSURANCE CORPORATION
- F M LOGAN
- FIBRE SOLUTIONS
- FINH
- FISHER CAPITAL PARTNERS
- FISHPAC PTY LTD
- FK MANAGEMENT LOGISTIC
- FLINDERS UNIVERSITY
- FLORA MCMAHON
- FOOTWEAR INDUSTRIES PTY LTD
- FREEHILLS
- FUGRO LADS CORPORATION PTY LTD
- GAMMA VACCINES PTY LTD
- GAP AUSTRALIAN PRODUCE EXPORTS
- GARUDA INDONESIA
- GEORGE WESTON FOODS
- GHEMS HOLDINGS P/L
- GLOBAL PEOPLE SOLUTIONS P/L
- GREG VICKERY
- GREGORY BICKNELL
- GRIFFITH UNIVERSITY
- HARDWICK FAMILY TRUST
- HERNIMAN GROUP
- HILLGROVE RESOURCES LIMITED
- HMG HARDCHROME PTY LTD
- HOBAN LEGAL
- HUDSON HOWELLS
- IBM
- ICAMPS PTY LTD
- ICON INTERNATIONAL
- INDEPENDENT METALLURGICAL OPERATIONS PTY LTD
- INDIVIDUAL
- INDOEASY LANGUAGE SERVICE
- INDONESIAN CONSULATE MELBOURNE
- INDONESIAN INTERNSHIPS
- INDONESIAN INVESTMENT PROMOTION CENTRE
- INDONESIAN TRADE PROMOTION CENTRE
- INDUSTRY CAPABILITY NETWORK NORTHERN TERRITORY
- INTERGRAPH CORPORATION
- INTERNATIONAL EDUCATION RESOURCES GROUP

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

- INTERNATIONAL INTERNSHIPS
- INTERPEOPLE
- INTREPID MINES LTD
- ITS GLOBAL
- JACK KENDREW
- JAMES BAXTER
- JEFFREY HUNTER
- JESS BRICE
- JOHN HYDE MLA
- JORGENSEN ALBUMS
- JOSHUA GRIFFIN
- JOHN MURRAY
- KABO LAWYERS
- KATE DOUST
- KEEPTHEHABITAT
- KISMET INTERNATIONAL PTY.LTD. FOR AND ON BEHALF OF GUANO
AUSTRALIA PTY.LTD.
- LACHLAN REES
- LATITUDE TRAVEL
- LEMUR RESOURCES
- LINDA REEVES & ASSOCIATES
- LVP CONSULTING
- MADDOCKS
- MALLESONS STEPHEN JAQUES
- MARADONA RUNTUKAHU
- MARTIN DUTTON
- MARTIN E. SILALAHI SH & PARTNERS
- MCC BUSINESS SOLUTIONS
- MCKENZIE ROSS & CO. PTY. LTD.
- MEAT & LIVESTOCK AUSTRALIA
- MEMBER FOR BLAIN
- MHM INTERNATIONAL
- MIDDLETONS
- MITIGATE GLOBAL
- MKEA ARCHITECTS PTY LTD
- MM LINE PTY LTD
- MONASH CONVEYANCING PTY LTD
- MORELINK ASIA PACIFIC
- MORELINK EDUCATION AND TRAINING SERVICES
- MORELINKS INTERNATIONAL PTY LTD
- MORRISON LOW
- MURDOCH UNIVERSITY

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

- MURRAY GROUP AUSTRALIA
- NEW YORK SECURITIES PTY LTD
- NEWCO OVERSEAS
- NICHOLAS GEORGE LAWYERS
- NIKUNJ NIKUNJ
- NORTHERN TERRITORY GOVERNMENT
- NORTON ROSE (ASIA) LLP
- NSW BUSINESS CHAMBER
- NT LIVESTOCK EXPORTERS ASSOCIATION INC.
- OCEAN ECLIPSE
- OCEANIC CATTLE STATIONS (AUST) PTY LTD
- OCEANIC MULTI TRADING PTY LTD
- OPPORTUNITY INTERNATIONAL AUSTRALIA
- ORIGIN ENERGY
- OSPREY ASSET MANAGEMENT
- OTRACO PTY LTD
- PAN ASIA CORPORATION LIMITED
- PAPER FORCE (OCEANIA) PTY LTD
- PARAGON CONVERTERS
- PHILLIP BOND
- PHOENIX ACADEMY
- PITCHER PARTNERS
- PJ DAWSON & ASSOCIATES PTY LTD
- PMT WATER ENGINEERING
- PROMICRO PTY LTD
- QUEENSLAND UNIVERSITY OF TECHNOLOGY
- RAMSAY HEALTH CARE
- RANGE TO REEF ENVIRONMENTAL
- REALWORLD OO SYSTEMS PTY LTD
- RICHARD NOBLE & COMPANY
- RICHARDSON & WRENCH MAROUBRA
- RISC OPERATIONS PTY LTD
- RMIT UNIVERSITY
- ROBUST RESOURCES LIMITED
- ROSS RYAN
- ROXBY MEDIA AUSTRALIA
- RPS METOCEAN
- RS PLATOU (AUSTRALIA) PTY LTD
- RSM AAJ ASSOCIATES
- RSM BIRD CAMERON
- S&A CAPITAL PTY LTD
- S.B.MCMAHON AND ASSOCIATES

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

- S2M2 COAL PTY LTD
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- SAVILLS
- SELECTRIX INDUSTRIES PTY LTD
- SENATOR ALAN EGGLESTON
- SHANGRI-LA HOTEL, JAKARTA
- SIHAYO GOLD LIMITED
- SILROA PTY LTD
- SIMON ROWE
- SMART ART DIRECT (GLOBAL)
- SMEC INTERNATIONAL PTY LTD
- SMILE INTERNATIONAL TRAVEL
- SOLARIS PAPER PTY LTD
- SOLARISCARE FOUNDATION
- SQUIRE SANDERS (AUSTRALIA)
- ST JOHN AMBULANCE AUSTRALIA NT INC
- STRATEGIC PARTNERS
- SWEET TOO PTY LTD
- SWINBURNE INSTITUTE OF TECHNOLOGY
- TAFE NSW - SOUTH WESTERN SYDNEY INSTITUTE
- TAFE NSW SYDNEY INSTITUTE
- TAFE SOUTH AUSTRALIA
- TAMAR GROUP PTY LTD
- THE CITADEL GROUP LTD
- THE INDONESIAN INVESTMENT PROMOTION CENTRE
- THE UNIVERSITY OF ADELAIDE
- THE UNIVERSITY OF QUEENSLAND
- THE UNIVERSITY OF WESTERN AUSTRALIA
- THIESS PTY LTD
- TIGERS REALM MINERALS
- TOGGLETEXT PTY LTD
- TONY MCRAE
- TOTAL STEEL OF AUSTRALIA PTY LTD
- TOUR VAN GROUP
- TRADE WORTHY
- TRADING EDGE AUSTRALASIA PTY LTD
- TRANS TASMAN BUSINESS CIRCLE
- TREDWAYS SHOE STORES
- UNIVERSITY OF CANBERRA
- UNIVERSITY OF SOUTH AUSTRALIA
- UNIVERSITY OF TECHNOLOGY, SYDNEY
- URS AUSTRALIA PTY LTD

LIST OF STAKEHOLDERS THAT TOOK PART IN CONSULTATIONS

- VERMILION OIL AND GAS AUSTRALIA PTY LTD
- VISIT INDONESIA TOURISM OFFICE
- WA LABOR
- WATIGA & CO.
- WEBASTO PRODUCT AUSTRALIA PTY LTD
- WELLARD GROUP
- WES HERON RESOURCES PTY LTD
- WESTERN POTATOES LIMITED
- WESTLINK SHIPPING PTY LTD
- WESTPAC
- WIEKE GUR
- WILLIAMS WINES
- WOODSIDE ENERGY

Annex 4:

Notes on Methodology

Consultation process in Indonesia

The stakeholder consultation process in Indonesia largely applied a qualitative approach which was deemed most suitable to gather and explore views, opinions, and inputs from stakeholders. Primary data were obtained through focus group discussions (FGD) followed by in-depth interviews to accommodate the large number of target respondents and the time constraints of the study. To complement this, secondary data were collected from previous relevant studies, official trade statistics published by the Governments of Indonesia and Australia, as well as news articles.

As part of the qualitative approach, open-ended semi-structured questionnaires were used. A semi-structured questionnaire is flexible, allowing new questions to be brought up as a result of what the respondents say. The interviewer in a semi-structured interview generally has a framework of themes to be explored. The themes explored were:

- Experiences doing business/trade with Australia
- Knowledge and experience about FTAs, and Indonesia's FTAs with other countries
- Views about current Indonesia-Australia trade relations
- Analysis on current conditions of Indonesia-Australia relations
- Inputs and recommendations towards IA-CEPA

Prior to the FGDs and interviews, an FGD/interview guide was prepared and briefed to facilitators/researchers. The guide is an informal grouping of topics that the interviewer can ask in different ways, tailored to the interview context/situation and to the people they are interviewing. The strengths of a semi-structured questionnaire are that it enables the facilitator/researcher to prompt and probe deeper into the given situation. Seeing that respondents may have different awareness and knowledge levels regarding the IA-CEPA and FTAs, interviewers/facilitators are able to probe or ask more detailed questions adapted to respondents' situations and not adhere only to a strict list of questions. In addition, questions can be rephrased or explained if respondents are unclear about the questions.

In the initial stage, the research team collected and analysed secondary data about economic conditions in Indonesia and Australia, including information on trade volumes, key trading sectors along with the issues in those sectors and key stakeholders. Having analysed adequate secondary data, the research team identified and categorized industry sectors and business associations to be consulted. This preliminary list was proposed to KADIN Indonesia for further selection. There are hundreds of business associations active in Indonesia. KADIN Indonesia is composed of about 130 active business associations. KADIN Indonesia then selected 60 business associations to invite to the consultation process.

For two consecutive days, on Monday 30th and Tuesday 31st of July, 2012, the research team facilitated multiple FGDs, inviting a total of 60 business associations from a range of sectors which were grouped under the categories of “Resources”, “Agriculture”, “Manufacturing”, “Services”, “Joint Associations”, and “Small-Medium Enterprises”. Prior to the FGDs, a working paper was distributed to participants that served as background material containing information on the economic relationship between Indonesia and Australia and various comprehensive economic cooperation opportunities.

A total of 19 business associations attended the FGD sessions. After the FGD sessions, business associations were invited to submit a written comment regarding their position and views on the IA-CEPA. Only one association provided a written submission.

One-on-one interviews were subsequently held after the completion of FGDs for a two-week period. Associations who did not attend the FGD sessions were re-invited for an interview session to provide them with an opportunity to share their views and input. Interviews were conducted with 14 business associations from various sectors. Hence a total of 33 associations participated in the stakeholder consultation process out of the 60 targeted associations.

Consultation process in Australia

The IA-CEPA BPG process in Australia commenced with a side meeting in conjunction with the Joint Leaders meeting in Darwin on July 3, 2012 and a further meeting in the wings of the AusAID Business Engagement Strategy launch in Canberra on August 21.

After this, the Australia Indonesia Business Council held a national tour of meetings with members and other stakeholders to socialise the IA-CEPA and allow members to provide comments and feedback into the process.

The Australian Chamber of Commerce and Industry (Australia’s largest and most representative business advocate) also regularly communicated with its membership who consists of:

- All state and territory chambers of commerce
- 28 national industry associations
- A number of bilateral and multilateral business organisations

In this way, ACCI provides leadership for more than 350,000 businesses which:

- Operate in all industry sectors
- Includes small, medium and large businesses
- Are located throughout metropolitan and regional Australia

ACCI continually engaged its members on the progress of discussions surrounding the BPG process and provides numerous opportunities for comment and input.

In Australia the BPG placed an advertisement in *The Financial Review* on August 30 inviting submissions from the public and interested businesses. This advertisement was also placed on the AFR website.

ACCI also created an online survey to assist business and the general public to respond with information for our project and this resulted in 23 responses which were made available to the project consultants.

The project consultants also drew upon the responses to the Australian Department of Foreign Affairs and Trade previous process related to the IA-CEPA feasibility study which included public and business submissions concerning the IA-CEPA. A number of submissions were confidential in nature, but most were publicly available.

Members also provided their inputs during the drafting of this position paper with a draft of the Interim report being circulated to stakeholders for comment before the finalisation of this paper.

Position paper drafting process

Following the first phase of the consultation process, a report of stakeholder consultation results was prepared, which was then provided to the IA-BPG members for review. In addition to this, a discussion paper was written prior to the first IA-BPG meeting on September 13, 2012 in Sydney. Both the Stakeholder Consultation report and the discussion paper served as the basis for the IA-BPG meeting and a starting point for the drafting of the position paper. During the first meeting, points were raised concerning the key principles and features of the IA-CEPA as expected by the IA-BPG. The IA-BPG also reacted and commented on stakeholder inputs to formulate the opportunities and challenges for the IA-CEPA.

Using inputs, comments and recommendations obtained during the first meeting, a team of consultants formulated a draft through a collaborative and iterative process involving IA-BPG members. The resulting first draft of the position paper was then circulated to the IA-BPG members for review before the second IA-BPG meeting in Jakarta, on September 27, 2012. The second meeting discussed key themes brought forward in the draft and provided comments and input for enhancing the draft. During the second meeting, the IA-BPG agreed on key principles and features of the IA-CEPA.

Consultants developed and enhanced this first draft and circulated a second draft on September 11, 2012. IA-BPG members then issued this draft internally and to business associations to provide input and additions until September 16, 2012. By September 18, 2012, a final draft was prepared to be discussed during the third and final IA-BPG meeting in Jakarta where it was jointly reviewed and approved by all members.

Secondary data Collection

Economic and trade statistics were obtained from the public domain. Most of the data were published by the Department of Foreign Affairs and Trade, Australian Bureau of Agricultural and Resource Economics and Sciences, and the Australian Bureau of Statistics. In Indonesia, data were obtained from Statistics Indonesia (*Badan Pusat Statistik – BPS*), the Ministry of Trade, the Ministry of Agriculture and the Indonesian Investment Coordinating Board (*Badan Koordinasi Penanaman Modal – BKPM*). A number of publicly available economic, trade, and investments analyses were also used, such as those published by the McKinsey Global Institute, the OECD, or Chatham House. In a more limited fashion, laws and regulations were reviewed to verify statements made by stakeholders.

Furthermore, a number of stakeholders' statements and stances regarding issues related to IA-CEPA were obtained through news articles. News articles also provided more in-depth background knowledge of issues that were not clearly explained during the stakeholder FGDs and/or interviews.

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Addendum

Participants of IA-BPG Meetings

The following are representatives of each of the four organizations constituting the IA-BPG that participated in the meetings and contributed to the formulation of the IA-BPG Position Paper on Considerations Towards the Indonesia – Australia Comprehensive Economic Partnership Agreement:

Members Indonesia

- **KADIN:** Maxi Gunawan, Chairman Permanent Committee for International Agency Cooperation; George Marantika, Vice Chair Permanent Committee for International Agency Cooperation; and Kris Sulisto, Committee for Australia.
- **IABC:** SD Darmono, President; David Sutanto, IABC Secretary General, Acting Chairman KADIN ANZ Committee; and Vic Halim, Executive Director.

Members Australia

- **ACCi:** Peter Anderson , Chief Executive; Bryan Clark, Director, Trade and International Affairs; and Ian Bennett, Senior Manager International Trade.
- **AIBC:** Ian Satchwell, National President; Chris Barnes, Immediate Past President; Rod Morehouse, National Vice-President; and Lydia Santoso.

The full list of participants of the three IA-BPG meetings can be found below.

1st IA-BPG Meeting

Day / Date : Thursday, 13 September 2012
 Time : 09.00 - 16.45
 Place : NSW Business Chamber, North Sydney, Australia

No	Name	Position	Company/Institution
Indonesian Business Representatives			
1	David Sutanto	IABC Secretary General, Acting Chairman KADIN ANZ Committee	IABC/KADIN
2	George Marantika	Vice Chair Permanent Committee for International Agency Cooperation	KADIN
3	Vic Halim	Executive Director	IABC
Australian Business Representatives			
4	Peter Anderson	Chief Executive	ACCI
5	Bryan Clark	Director, Trade and International Affairs	ACCI
6	Ian Satchwell	National President	AIBC
7	Ian Bennett	Senior Manager International Trade	Australian Business/ACCI
8	Chris Barnes	Immediate Past President	AIBC
9	Rod Morehouse	National Vice-President	AIBC
10	Lydia Santoso		AIBC
Australian Government Observers			
11	Bradley Armstrong	A/g Assistant Secretary Southeast Asia Investment and Services Branch, Free Trade Agreement Division	DFAT
12	Jennifer Burdick	Desk Officer, South East Asia Services and Investment Branch Free Trade Division	DFAT
13	Richard Rogers	Director Indonesia Economic and East Timor Section	DFAT



Indonesia Government Observers			
14	Gary R.M. Yusuf	Indonesian Consul General to Sydney	Indonesian Consulate in Sydney
15	Sunarti Ichwanto	Consul	Indonesian Consulate in Sydney
16	Sendi M. Siregar	Vice-Consul	Indonesian Consulate in Sydney
17	Muhamad Hidayat		Indonesian Consulate in Sydney
18	Irmawan Emir Wisnandar	Indonesian Consul General to Melbourne	Indonesian Consulate in Melbourne
19	Maradona A. Runtukahu	Vice-Consul	Indonesian Consulate in Melbourne
20	Syarief Syamsuri	Indonesian Consul General to Perth	Indonesian Consulate in Perth
21	Denny Lesmana	1st Secretary - Economy	Indonesian Embassy in Canberra
22	Anwar Nainggolan		Ministry of Trade
Kiroyan Partners			
23	Prabowo	Senior Expert on Economics	KIROYAN PARTNERS
24	Anton Rizki Sulaiman	Alternate Director & Principal Consultant	KIROYAN PARTNERS



2nd IA-BPG Meeting

Day / Date : Thursday, 27 September 2012
 Time : 09.00 - 16.30
 Place : Jasmine 2 - LG Level, InterContinental Jakarta MidPlaza, Jakarta, Indonesia

No	Name	Position	Company/Institution
Indonesian Business Representatives			
1	SD Darmono	President	IABC
2	Maxi Gunawan	Chairman Permanent Committee for International Agency Cooperation	KADIN
3	George Marantika	Vice Chair Permanent Committee for International Agency Cooperation	KADIN
4	David Sutanto	IABC Secretary General, Acting Chairman KADIN ANZ Committee	IABC/KADIN
5	Ali Almasyhur	Vice Chair Permanent Committee for Bilateral Cooperation	KADIN
6	Vic Halim	Executive Director	IABC
7	Dhoni Ibrahim	Deputy Director	IABC
Australian Business Representatives			
8	Bryan Clark	Director, Trade and International Affairs	ACCI
9	Ian Bennett	Senior Manager International Trade	Australian Business/ACCI
10	Ian Satchwell	National President	AIBC
11	Chris Barnes	Immediate Past President	AIBC



Australian Government Observers			
12	Michael Mugliston	Australian Lead Negotiator	DFAT
13	Beardsley G. Richard	Free Trade Agreement Division	DFAT
14	Bradley Armstrong	A/g Assistant Secretary Southeast Asia Investment and Services Branch, Free Trade Agreement Division	DFAT
15	Lucy Ryan	Executive Officer, Southeast Asia Investment and Services Branch, Free Trade Agreement Division	DFAT
16	Richard Rodgers	Director Indonesia Economic and East Timor Section	DFAT
17	Carly Stevens	Tariff and Trade Policy Section	DIAC
18	Julianne Meriman	Trade Commissioner	Austrade
19	Elly Lawson	Economic Counsellor	Australian Embassy
20	Gillian Kenny	Second Secretary (Economic)	Australian Embassy
21	Bruce Wallner	Counsellor (Agriculture)	DAFF
22	Neil McCulloch	Economic Governance team - AusAID	AusAID
Indonesia Government Observers			
23	Iman Pambagyo	Director General International Trade Cooperation/Indonesian Lead Negotiator	Ministry of Trade RI
24	Sri Nastiti Budianti	Director Bilateral Cooperation	Ministry of Trade RI
25	Ponirin Sugito	Head Sub-Directorate South Asia, Australia and Pacific	Ministry of Trade RI
26	Ghanna Wivanus	Directorate Asia Selatan, Australia and Pacific	Ministry of Trade RI
27	Amalia A. Widyasanti	Director of Trade, Investment & International Economic Cooperation	BAPPENAS (National Development Planning Agency)
28	Deasy Damayanti		BAPPENAS (National Development Planning Agency)
29	Gary R.M. Yusuf	Indonesian Consul General to Sydney	Indonesian Consulate in Sydney
Kiroyan Partners			



30	Anton Rizki Sulaiman	Alternate Director & Principal Consultant	KIROYAN PARTNERS
31	Ayu D.F. Siahaan	Senior Consultant	KIROYAN PARTNERS
32	Astrid Puspitasari	Project Officer	KIROYAN PARTNERS



IA-BPG presentation to the Ministers at 10th annual Joint Trade Ministers' Meeting

Day / Date : Friday, 12 October 2012
 Place : Parliament House, Canberra, Australia

No	Name	Position	Company/Institution
Indonesian Business Representatives			
1	Maxi Gunawan	Chairman Permanent Committee for International Agency Cooperation	KADIN
2	Kris Sulisto	Committee for Australia	KADIN
3	Vic Halim	Executive Director	IABC
Australian Business Representatives			
1	Ian Satchwell	National President	AIBC
2	Bryan Clark	Director, Trade and International Affairs	ACCI
3	Peter McMullin	Director	ACCI



3rd IA-BPG Meeting

Day / Date : Thursday, 18 October 2012
 Time : 09.00 - 17.00
 Place : Jasmine 5 - LG Level, InterContinental Jakarta MidPlaza, Jakarta, Indonesia

No	Name	Position	Company/Institution
Indonesian Business Representatives			
1	SD Darmono	President	IABC
2	Moetaryanto	Advisor	IABC
3	Maxi Gunawan	Chairman Permanent Committee for International Agency Cooperation	KADIN
4	Kris Sulisto	Committee for Australia	KADIN
5	George Marantika	Vice Chair Permanent Committee for International Agency Cooperation	KADIN
6	David Sutanto	IABC Secretary General, Acting Chairman KADIN ANZ Committee	IABC/KADIN
7	Ali Almasyhur	Vice Chair Permanent Committee for Bilateral Cooperation	KADIN
8	Vic Halim	Executive Director	IABC
9	Dhoni Ibrahim	Deputy Director	IABC
Australian Business Representatives			
10	Bryan Clark	Director, Trade and International Affairs	ACCI
11	Chris Barnes	Immediate Past President	AIBC



12	Peter Anderson	Chief Executive	ACCI
13	Rod Morehouse	National Vice-President	AIBC
14	Lydia Santoso		AIBC
Australian Government Observers			
15	Kym Hewett	Senior Trade Commissioner	Austrade
16	Bradley Armstrong	A/g Assistant Secretary Free Trade Agreement Division	DFAT Canberra
17	Gillian Kenny	Second Secretary (Economic)	Australian Embassy
Indonesia Government Observers			
18	Gary R.M. Yusuf	Indonesian Consul General to Sydney	Indonesian Consulate in Sydney
19	Ponirin Sugito	Deputy Director for South Asia	Ministry of Trade RI
20	Ghanna Wivanus	Directorate Asia Selatan, Australia and Pacific	Ministry of Trade RI
21	Maudy Kiranayanti	Section Head for Australia and Pacific Affairs	Ministry of Trade RI
Kiroyan Partners			
22	Noke Kiroyan	President Director & Chief Consultant	Kiroyan Partners
23	Anton Rizki Sulaiman	Alternate Director & Principal Consultant	Kiroyan Partners
24	Ayu D.F. Siahaan	Senior Consultant	Kiroyan Partners
25	Astrid Puspitasari	Project Officer	Kiroyan Partners
26	Adam J. Fenton	Liaison Officer	Kiroyan Partners





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